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PUBLIC ATTITUDES TOWARD THE DEFICIT AND TAX REFORM

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BEFORE THE

JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES

NINETY-NINTH CONGRESS

FIRST SESSION

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PUBLIC ATTITUDES TOWARD THE DEFICIT AND TAX REFORM

THURSDAY, APRIL 4, 1985

CONGRESS OF THE UNITED STATES,
JOINT ECONOMIC COMMITTEE,
Washington, DC.

The committee met, pursuant to notice, at 10:10 a.m., in room 2359, Rayburn House Office Building, Hon. David R. Obey (chairman of the committee) presiding.

Present: Representatives Obey, Hawkins, Scheuer, Wylie, and Lungren; and Senator Mattingly.

Also present: William R. Buechner, Christopher J. Frenze, and Kent Hughes, professional staff members.

OPENING STATEMENT OF REPRESENTATIVE OBEY, CHAIRMAN

Representative OBEY. Good morning. The hearing today is to help us develop a better understanding of the public attitudes and the public understandings of two of the major issues before the Congress—the deficit and tax reform.

We have to make clear at the start that the job of national leaders is not to make decisions on the basis of a public opinion poll. We know that. We are supposed to both represent and lead public opinion and that means that we have to help shape as well as follow public opinion, but it is certainly essential that we know and have some feeling in a democratic society for the level of public information on a subject as well as the willingness of the public to change from the status quo in a number of areas that represent very serious problems for the United States.

Second, public disenchantment with our tax system is not only a political problem but it is an economic problem. Society needs to learn to do a better job of cooperating if we are to adopt the kinds of economic changes that will be needed to sustain our ability to compete over the next 20 or 30 years in world markets and that cooperation in my judgment will be greatly facilitated if there is a general sense in the society that both our budget and our taxing decisions are not only sensible but equitable as well.

I think the results of the study which we will hear today demonstrate that the American public has a somewhat better understanding of the problems than many people who wrestle with those problems in Washington often appear to think.

It is clear that the public is deeply concerned about the impact of massive deficits in the Nation and it wants some moderation in defense spending. The huge military buildup is the single biggest

problem that we face in the Federal budget right now because it is the determining factor in how much cooperation we can get for overall budget reduction in all sectors of the budget.

Analysis of the Federal budget prepared by the staff of the Joint Economic Committee demonstrates that from 1980 to 1985 the defense and foreign affairs portions of the budget increased from $145 to $268 billion and will go up to $308 billion in 1986 under the administration's requested budget. That means we will have increased funds for defense from 25 percent to 31 percent of our budget dollar in that period.

At the same time, interest on that debt is the most rapidly growing portion of the budget, growing from $52 billion to $130 billion, a 150-percent increase, between 1980 and today and it is also a projected increase on the requested budget.

Only one category of the budget has been cut in real dollar terms, the remaining portions of the budget which we are left with after you subtract what we pay for retirement checks, what we pay for interest, what we pay for defending the shores, and what we pay for providing services to the nonelderly poor in our society. In my personal judgment, those numbers demonstrate that the President and the Congress must make a fundamental decision. That decision is whether or not we need the kind of military buildup which is being proposed. If we do, we ought to be willing to pay for it. If we don't, we ought to cut it out in order to reduce the deficit.

I think the poll which will be reported on today has suggested that the American public understands the problem and shares that view. I do not think the American public wants future generations to pay present generations' bills.

This study also appears to me to lend strong support to the concept of equity and fairness in the Tax Code. People, as I read this poll, are willing to give up at least some of the loopholes from which they have benefited through the years for the purpose of establishing an overall improvement in the fairness of the Tax Code.

There are some problems with the record, but I think they seem to be further ahead than many people in this town seem to be on that subject.

But I would also feel that the poll demonstrates that public opinion has not yet sufficiently gelled around the issue of tax reform to the degree that it has gelled around budget questions, but we will let Mr. Harris and Mr. Trapp report on that.

We have with us today two witnesses: Mr. Peter Trapp, president of Sentry Insurance which commissioned this public opinion survey; and Mr. Lou Harris, chairman of Lou Harris & Associates, a well known figure in this town and throughout the country.

Mr. Trapp, why don't you proceed? We're happy to have you here.

STATEMENT OF PETER P. TRAPP, PRESIDENT, SENTRY LIFE INSURANCE CO., STEVENS POINT, WI

Mr. TRAPP. Thank you. Good morning. My name is Peter Trapp, president of Sentry Life Insurance Co., headquartered in Stevens Point, WI.

First, I would like to thank Representative Obey for inviting us to present the findings of Sentry's latest study. And I'd also like to offer a special word of thanks to Lou Harris and Merl Baker for once again delivering an exceptional piece of opinion research for us.

As you know, we are here today to present for the first time the findings of "Shaping a Compromise: Americans' Attitudes Toward Reducing the Deficit and Simplifying Taxes."

The study is the ninth in a series of opinion research projects commissioned by Sentry Insurance. It's part of our continuing public service program we began in 1973. The objective of the program is to provide new and important information on issues of broad concern to Government, the business community, special-interest groups, and the public at large.

Our past studies with the Harris organization have dealt with Americans' attitudes on issues such as privacy, consumerism, productivity, and entrepreneurship. Today, we will hear what America thinks about another very pressing issue: the Federal budget deficit and tax simplification.

Sentry's initial concerns, quite frankly, focused on the proposals to tax employer-provided employee benefits. After discussing it with the Harris organization, it occurred to us that it would be much more valuable to test all of the issues in the debate instead of simply asking for agreement or disagreement to a list of increases and cuts.

As you'll soon hear, this study brings valuable insight to the debate by asking Americans how they would vote as Members of Congress if the cuts and taxes they favored didn't reduce the deficit by more than half.

Being forced to play Congress makes us realize how tough your job is. It also helps illustrate what really matters to the American public.

As we've done in the past, Sentry maintained a hands off policy toward the findings. Whether we agreed or disagreed, we would release them to the public.

A final note. In keeping in the spirit of corporate public service, Sentry will be making wide distribution of the study to the media, to your fellow Members of Congress, and to our associates in the life insurance industry. It is our hope that this study will not only give the public a voice in the debate, but that it will also be of real value to those of you who have the tough job of reforming our tax system and reducing the deficit.

I'm pleased to present Mr. Louis Harris.

Representative OBEY. Mr. Harris.

STATEMENT OF LOUIS HARRIS, CHAIRMAN, LOUIS HARRIS & ASSOCIATES, INC., NEW YORK, NY

Mr. HARRIS. Mr. Chairman, I come here today to report on a unique kind of survey we have recently conducted. In effect, we asked a cross section of 1,253 adults—that was in early February—across the country to put themselves in the shoes of their Representatives in Congress on the question of the Federal deficit, and

then asked them bluntly what they would do about it if they had to bite the bullet on such problems.

Let me say at the outset, Mr. Chairman, that I am deeply grateful to the Sentry Insurance people for sponsoring this specific study. They have been long friends and clients of the Harris firm and together with them, as Mr. Trapp said, we have conducted landmark studies on such subjects as privacy, consumerism, productivity, employee safety, the shortage of skilled labor, entrepreneurship, and others. The mark of all of them, indeed the condition of our doing these surveys, is that had we done them for this distinguished committee or a foundation—and, Mr. Chairman, I remember doing a survey directly for the House of Representatives under your aegis a bit back on ethics of Members of this august institution—had we done it for this committee, or a foundation, or any other sponsor, we would have done the task no differently.

In no way, shape, or form did Sentry alter or change the approach or substantive thrust of this survey. They paid for it and made it possible, for which I am grateful. I am also in the debt of my colleague, Merl Baker, of our own organization who contributed far more than I in a major way toward the professionalism of this effort.

The essence of what we did was to ask each person in a national cross section to put themselves in your places. Let me repeat two of the specific questions so there's no doubt about what we asked here.

First was:

> If you were a Member of Congress and had to vote on a proposal to reduce the annual budget deficit by more than half, would you vote in favor of a proposal to—and then we would read a series of proposals that we were asking—or would you vote against it?

Then for each person who said they would vote against that proposal, we asked this followup question:

> If all the proposals you would vote in favor of to reduce the budget deficit didn't add up to enough to cut the deficit by more than half, would you then tend to vote in favor of a proposal to—and then we repeated the same list—or would you vote against it?

What we were trying to do there I might add, Mr. Chairman, was to stimulate if we might what could be—and that's a calculated guess—could be the process and the problem that Congress may face in meeting the same question.

Now before giving you the results of the 12 items that we asked about, please allow me to make these caveats. Does this mean precisely that if each person were sitting in your places they would vote that way? Not necessarily, for these results do not reflect the cross pressures, on the one hand, that are indeed there on you and are not on the public, and the array of facts available to you on the other. Again, not necessarily, because even within our own data there are some powerful indications that public opinion isn't frozen in stone or locked in place, that it can be changed.

But in the aggregate, I would have to conclude that what we have come up with is a fair measure of what the American people would be willing to do if put right up against the blaze and told: "Now just how are you going to get the deficit down if that were your mandate from the voters?" And, Mr. Chairman, let me say,

that is precisely the mandate. By 90 to 4 percent, a nearly unanimous majority say the problem of the Federal deficit is serious. What is more, by 74 to 20 percent, they feel the deficit will increase interest rates over the next 12 months; 74 to 22 percent feel that it will increase inflation; by 68 to 27 percent it will increase unemployment; by 69 to 25 percent it will slow the rate of economic growth; and by 62 to 33 percent it could well cause a recession in the economy. That's quite a litany of horrors I might add, and it says to me loud and clear that people are awfully worried about the consequences of continuing high deficits, continuing high spending and continuing high, in effect, out-of-control Federal fiscal performance.

Now contrary to some cynical views that the public is inured on the subject of deficits and really doesn't care a hoot about them, a substantial 84 to 11 percent said it does affect their own lives personally and do say they want something done, and they mean it, by fiscal 1988 to cut this deficit in half. In a word, there's nothing academic to the American people about the bloated and out-of-control Federal deficit.

So when we asked people to role play as Members of Congress, on six specific proposals dealing with cuts—that's 6 out of 12—in spending or tax increases, clear majorities said they would vote in favor.

Sixty percent said they would vote to limit deductions of interest paid on credit card charges, car loans, and other personal debt up to $5,000 a year. That's a deduction they now get. There's no mistake about that. They are willing to limit it.

Fifty-nine percent said they would cast their vote in Congress to disallow the cost-of-living adjustment for Federal and military retirees at least on a 1-year basis.

An identical 59 percent said they would vote to reduce the growth of defense spending. Let me underscore that by further reporting from other research conducted in this same period that the number in the country who want to increase defense spending has dropped since 1980 from 71 percent to a bare 9 percent, one of the most dramatic drops I have ever measured in my long experience.

Fifty-eight percent want to freeze Medicare payments to doctors and hospitals for 1 year. People know that health care costs keep going up far beyond the overall cost of living and want just such tough freeze and caps on fees paid to doctors and hospitals.

Fifty-seven percent are willing to limit deductions of charitable contributions to those exceeding a certain percentage of income. Let me warn on this, however, that in other studies when we have directly tested the idea of simply dropping all deductions for charitable contributions and 71 percent say they would fight that tooth and nail. This is one where we have some real clues the issue has not yet been joined in full and it's one of which I would warrant a guess public opinion might well be shifted.

Fifty-five percent would vote to cut the pay of Federal employees by five percent. Again, as in the case of civilian and military retirees, it is evident that the sector of Federal employment is one where clear majorities of the public favor cuts.

Now in addition to these clear-cut cases, there are six other areas we tested where a majority of the American people are not in favor

of making cuts or raising taxes. These include reducing business tax incentives for new investments in plants and equipment, elimination of deductions of State and local income taxes and sales taxes, reducing Federal support for farmers and small business, disallowing the cost-of-living adjustment on Social Security for 1 year, taxing employees for group health insurance premiums that are paid by employers that exceed a certain amount, and taxing employees for group life insurance premiums that are paid by employers.

That's all in terms of reducing the deficit. I'll come back to those in a moment and test them in terms of taxing limitations.

The significance, however, of these results, I believe, is inescapable. The public is saying in loud and clear terms that it is far more willing than one would be led to believe to both see substantial cuts in spending and something I believe we don't hear much about in the rest of country out of Washington these days, also increases in taxes. Indeed, this does not mean cuts in all programs nor indiscriminate increases in taxes. But the budget deficit is viewed as being sufficiently serious and ominous in its consequence that they are willing to endure some personal pain in the process of bringing it under control. Fundamentally, they are saying that the cost of not controlling deficit spending is so great that it is far better to endure lesser pain in the way of increased levies and cuts in some popular programs.

The willingness to endure some tax increases takes on added significance and meaning when some other results of this Sentry study are examined. For example, by a thumping 65 to 29 percent, a big majority say they are fed up with the current tax system, consider it unfair. The concept of tax simplification based on various "flat" tax proposals that have been made is favored by a substantial 61 to 29 percent even after people have explained to them what kind of giveups in deductions and exemptions are involved. We have checked this proposition out as we did here in the form of the Treasury proposals surfaced last November, but we have also tested the Bradley-Gephardt alternative tax simplification approach in other studies and, Mr. Chairman, let me say that the results are remarkably similar and we have asked about it I think in total about six times.

In the case of the original Treasury plan, which we understand is being modified this very moment by Secretary Baker, the original plan's approach of lowering the taxes of individuals while increasing those on business is viewed as fair by 57 to 31 percent. And 59 to 32 percent, almost identical, said they favored that specific version of tax simplification.

Americans are so eager to see the Nation's tax laws simplified that they are willing to hold their noses—and I say that literally—and favor a tax simplification package even if it eliminates some popular items—and I mean very bluntly things that help them and they have been used to living by.

By 66 to 27 percent they accept the simplification package if it limits deductions of charitable contributions; by 65 to 26 percent they accept the notion of eliminating deductions on second or vacation homes; by 65 to 27 percent they accept limiting deductions of interest paid on personal debt; by 64 to 25 percent they accept the

idea that capital gains would be taxed as ordinary income; and by 63 to 30 percent would find the plan acceptable if it reduces significantly the tax breaks businesses get for depreciation or if it eliminates the investment tax credit. They would even find a tax simplification plan acceptable by 52 to 40 percent if it taxes group health insurance. This is a real measure of the public's appetite for major tax reform.

Fundamentally, Mr. Chairman, it is evident from these results that the notion of tax simplification is one whose time has come. People have become downright cynical and resentful of the tax system, viewing it as a ripoff for the privileged and at the expense of the broad middle income families of the country.

Let me say, Mr. Chairman, we have offices in Paris and London—our firm does—and operates in 60 countries and I don't mind saying as an American citizen and one who has some stakes abroad that there is enormous cynicism in countries like France and Italy about paying taxes, and we are beginning to see the start of that kind of cynicism here in the United States. If you want to undermine confidence in Government, confidence in our system, in my judgment, the way to do it is to allow the people to get more and more cynical about the tax system. If that message isn't delivered, I think we run a risk of some deep, deep public disenchantment such as we haven't seen in many, many years.

People want reform to be revenue neutral, although they are willing to see some taxes raised in order to help reduce the deficit. But they want such action to be separate and distinctly kept apart. It must be remembered that most people feel they benefit from tax reform, indeed all but those in the highest income brackets feel that way. Those people who are used to using exemptions, deductions, and the loopholes, if you will, tend to be far less enthusiastic about reform. I might say they are also the most cynical and we can discuss that if you like in the questions.

By contrast, cutting the Federal deficit means sacrifice down the line and yet when we asked people for priority between the two, reducing the deficit gets the priority, which means it's become a front and center issue, make no mistake about that. Thank you, Mr. Chairman.

[The prepared statement of Mr. Harris, together with the Sentry study entitled "Shaping a Compromise: Americans' Attitudes Toward Reducing the Deficit and Simplifying Taxes," follows:]

PREPARED STATEMENT OF LOUIS HARRIS

MR. CHAIRMAN, MY NAME IS LOUIS HARRIS, I AM CHAIRMAN AND CHIEF EXECUTIVE OFFICER OF THE INTERNATIONAL RESEARCH FIRM BEARING MY NAME. I COME HERE TODAY TO REPORT ON A UNIQUE KIND OF SURVEY WE HAVE RECENTLY CONDUCTED. IN EFFECT, WE ASKED A CROSS-SECTION OF 1,253 ADULTS ACROSS THE COUNTRY TO PUT THEMSELVES IN THE SHOES OF THEIR REPRESENTATIVES IN CONGRESS ON THE QUESTION OF THE FEDERAL DEFICIT, AND ASKED THEM BLUNTLY WHAT THEY WOULD DO ABOUT IT IF THEY HAD TO BITE THE BULLET ON SUCH PROBLEMS.

LET ME SAY AT THE OUTSET, MR. CHAIRMAN, THAT I AM DEEPLY GRATEFUL TO THE SENTRY INSURANCE PEOPLE FOR SPONSORING THIS SPECIFIC STUDY. THEY HAVE BEEN LONG FRIENDS AND CLIENTS OF THE HARRIS FIRM AND TOGETHER WITH THEM, WE HAVE CONDUCTED LANDMARK STUDIES ON SUCH SUBJECTS AS PRIVACY, CONSUMERISM, PRODUCTIVITY, EMPLOYEE SAFETY, THE SHORTAGE OF SKILLED LABOR, ENTREPRENEURSHIP AND OTHERS. THE MARK OF THEM ALL, INDEED, THE CONDITION OF OUR DOING THE SURVEYS, IS THAT HAD WE DONE THEM FOR THIS DISTINGUISHED COMMITTEE OR A FOUNDATION OR ANY OTHER SPONSOR, WE WOULD HAVE DONE THE TASK NO DIFFERENTLY. ——————————→

IN NO WAY, SHAPE, OR FORM, DID SENTRY ALTER OR CHANGE THE APPROACH NOR SUBSTANTIVE THRUST OF THIS SURVEY. THEY PAID FOR IT AND MADE IT POSSIBLE, FOR WHICH I AM GRATEFUL. I AM ALSO IN THE DEBT OF MERL BAKER OF OUR OWN ORGANIZATION WHO CONTRIBUTED IN A MAJOR WAY TOWARD THE PROFESSIONALISM OF THIS EFFORT.

THE ESSENCE OF WHAT WE DID WAS TO ASK EACH PERSON IN A NATIONAL CROSS-SECTION, WHICH WAS CONDUCTED IN EARLY FEBRUARY, TO PUT THEMSELVES IN YOUR PLACES. WE ASKED THEM, "IF YOU WERE A MEMBER OF CONGRESS AND HAD TO VOTE ON A PROPOSAL TO REDUCE THE ANNUAL BUDGET DEFICIT BY MORE THAN HALF, WOULD YOU VOTE IN FAVOR OF A PROPOSAL TO (READ EACH ITEM), OR WOULD YOU VOTE AGAINST IT?" AND THEN, FOR EACH PERSON WHO SAID THEY WOULD VOTE AGAINST THAT PROPOSAL, WE ASKED THIS FOLLOW UP QUESTION, "IF ALL THE PROPOSALS YOU WOULD VOTE IN FAVOR OF TO REDUCE THE BUDGET DEFICIT DIDN'T ADD UP TO ENOUGH TO CUT THE DEFICIT BY MORE THAN HALF, WOULD YOU THEN TEND TO VOTE IN FAVOR OF A PROPOSAL TO (READ EACH ITEM), OR WOULD YOU VOTE AGAINST IT?"

NOW, BEFORE GIVING YOU THE RESULTS FOR THE TWELVE ITEMS WE ASKED ABOUT, MR. CHAIRMAN, PLEASE ALLOW ME TO MAKE THESE CAVEATS. DOES THIS MEAN PRECISELY THAT IF EACH PERSON WERE SITTING IN YOUR PLACES, THEY WOULD VOTE THAT WAY? NOT NECESSARILY, FOR THESE RESULTS DO NOT REFLECT THE CROSS-PRESSURES, ON THE ONE HAND, AND THE ARRAY OF FACTS AVAILABLE TO YOU, ON THE OTHER. ⟶

AGAIN, NOT NECESSARILY, BECAUSE EVEN WITHIN OUR OWN DATA, THERE ARE SOME POWERFUL INDICATIONS THAT PUBLIC OPINION CAN BE CHANGED.

BUT IN THE AGGREGATE, I WOULD HAVE TO CONCLUDE THAT WHAT WE HAVE COME UP WITH IS A FAIR MEASURE OF WHAT THE AMERICAN PEOPLE WOULD BE WILLING TO DO IF PUT RIGHT UP AGAINST THE BLAZE AND TOLD, "NOW JUST HOW ARE YOU GOING TO GET THE DEFICIT DOWN, IF THAT WAS YOUR MANDATE FROM THE VOTERS?" AND THAT IS PRECISELY THE MANDATE. BY 90-4%, A NEARLY UNANIMOUS MAJORITY SAY THE PROBLEM OF THE FEDERAL DEFICIT IS SERIOUS. WHAT IS MORE, BY 74-20%, A SIZABLE MAJORITY FEEL IT WILL INCREASE INTEREST RATES OVER THE NEXT TWELVE MONTHS, BY 74-22% THAT IT WILL INCREASE INFLATION, BY 68-27% THAT IT WILL INCREASE UNEMPLOYMENT, BY 69-25% THAT IT WILL SLOW THE RATE OF ECONOMIC GROWTH, AND BY 62-33% THAT IT COULD WELL CAUSE A RECESSION IN THE ECONOMY. CONTRARY TO SOME CYNICAL VIEWS THAT THE PUBLIC IS INURED ON THE SUBJECT OF DEFICITS AND REALLY DOESN'T CARE ABOUT THEM, A SUBSTANTIAL 84-11% MAJORITY SAY IT DOES AFFECT THEIR OWN LIVES PERSONALLY. IN A WORD, NOTHING ACADEMIC TO THE AMERICAN PEOPLE ABOUT THE BLOATED AND OUT OF CONTROL FEDERAL DEFICIT.

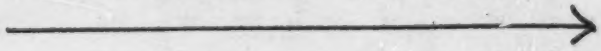
SO, WHEN WE ASKED PEOPLE TO ROLE PLAY AS MEMBERS OF CONGRESS, ON SIX SPECIFIC PROPOSALS DEALING WITH CUTS IN SPENDING OR TAX INCREASES, CLEAR MAJORITIES SAID THEY WOULD VOTE IN FAVOR:

- 60% SAID THEY WOULD VOTE TO LIMIT DEDUCTIONS OF INTEREST PAID ON CREDIT CARD CHARGES, CAR LOANS, AND OTHER PERSONAL DEBT TO $5,000 A YEAR.

- 59% SAY THEY WOULD CAST THEIR VOTE IN CONGRESS TO DISALLOW THE COST-OF-LIVING ADJUSTMENT FOR FEDERAL AND MILITARY RETIREES FOR ONE YEAR.

- AN IDENTICAL 59% SAID THEY WOULD VOTE TO REDUCE THE GROWTH OF DEFENSE SPENDING. LET ME UNDERSCORE THAT BY FURTHER REPORTING FROM OTHER RESEARCH CONDUCTED IN THIS SAME PERIOD THE NUMBER IN THE COUNTRY WHO WANT TO INCREASE DEFENSE SPENDING HAS DROPPED SINCE 1980 FROM 71 TO A BARE 9%, ONE OF THE MOST DRAMATIC DROPS I HAVE EVER MEASURED IN MY LONG EXPERIENCE.

- 58% WANT TO FREEZE MEDICARE PAYMENTS TO DOCTORS AND HOSPITALS FOR ONE YEAR. PEOPLE KNOW THAT HEALTH CARE COSTS KEEP GOING UP FAR BEYOND THE OVERALL COST OF LIVING AND WANT JUST SUCH TOUGH FREEZE AND CAPS ON FEES PAID TO DOCTORS AND HOSPITALS.

- 57% ARE WILLING TO LIMIT DEDUCTIONS OF CHARITABLE CONTRIBUTIONS TO THOSE EXCEEDING A CERTAIN PERCENTAGE OF INCOME. 

LET ME WARN ON THIS, HOWEVER, THAT IN OTHER STUDIES WHEN WE HAVE DIRECTLY TESTED THE DIRECT IDEA OF SIMPLY DROPPING ALL DEDUCTIONS FOR CHARITABLE CONTRIBUTIONS AND 71% SAY THEY WOULD FIGHT THAT TOOTH AND NAIL. THIS IS ONE WHERE WE HAVE SOME REAL CLUES THE ISSUE HAS NOT YET BEEN JOINED AND ON WHICH PUBLIC OPINION MIGHT WELL BE SHIFTED.

. 55% WOULD VOTE TO CUT THE PAY OF FEDERAL EMPLOYEES BY 5%. AGAIN, AS IN THE CASE OF CIVILIAN AND MILITARY RETIREES, IT IS EVIDENT THAT THE SECTOR OF FEDERAL EMPLOYMENT IS ONE WHERE CLEAR MAJORITIES OF THE PUBLIC FAVOR CUTS.

NOW, IN ADDITION TO THESE CLEAR-CUT CASES, THERE ARE SIX OTHER AREAS WE TESTED, WHERE A MAJORITY OF THE AMERICAN PEOPLE ARE NOT IN FAVOR OF MAKING CUTS OR RAISING TAXES. THESE INCLUDE REDUCING BUSINESS TAX INCENTIVES FOR NEW INVESTMENTS IN PLANTS AND EQUIPMENT, ELIMINATION OF DEDUCTIONS OF STATE AND LOCAL INCOME TAXES AND SALES TAXES, REDUCING FEDERAL SUPPORT FOR FARMERS AND SMALL BUSINESS, DISALLOWING THE COST-OF-LIVING ADJUSTMENT ON SOCIAL SECURITY FOR ONE YEAR, TAXING EMPLOYEES FOR GROUP HEALTH INSURANCE PREMIUMS THAT ARE PAID BY EMPLOYERS AND THAT EXCEED A CERTAIN AMOUNT, AND TAXING EMPLOYEES FOR GROUP LIFE INSURANCE PREMIUMS THAT ARE PAID BY EMPLOYERS.

THE SIGNIFICANCE, HOWEVER, OF THESE RESULTS, I BELIEVE, IS INESCAPABLE. THE PUBLIC SAYING IN LOUD AND CLEAR TERMS THAT IT IS FAR MORE WILLING THAN ONE WOULD BE LED TO BELIEVE TO BOTH SEE SUBSTANTIAL CUTS IN SPENDING AND ALSO INCREASES IN TAXES. INDEED, THIS DOES NOT MEAN CUTS IN ALL PROGRAMS NOR INDISCRIMINATE INCREASES IN TAXES. BUT THE BUDGET DEFICIT IS VIEWED AS BEING SUFFICIENTLY SERIOUS AND OMINOUS IN ITS CONSEQUENCE THAT THEY ARE WILLING TO ENDURE SOME PERSONAL PAIN IN THE PROCESS OF BRINGING IT UNDER CONTROL. FUNDAMENTALLY THEY ARE SAYING THAT THE COST OF NOT CONTROLLING DEFICIT SPENDING IS SO GREAT THAT IT IS FAR BETTER TO ENDURE LESSER PAIN IN THE WAY OF INCREASED LEVIES AND CUTS IN SOME POPULAR PROGRAMS.

THE WILLINGNESS TO ENDURE SOME TAX INCREASES TAKES ON ADDED SIGNIFICANCE AND MEANING WHEN SOME OTHER RESULTS OF THIS SENTRY STUDY ARE EXAMINED. FOR EXAMPLE, BY A THUMPING 65-29%, A BIG MAJORITY SAY THEY ARE FED UP WITH THE CURRENT TAX SYSTEM, CONSIDER IT UNFAIR. THE CONCEPT OF TAX SIMPLIFICATION BASED ON VARIOUS "FLAT" TAX PROPOSALS THAT HAVE BEEN MADE IS FAVORED BY A SUBSTANTIAL 61-29% EVEN AFTER PEOPLE HAVE EXPLAINED TO THEM WHAT KIND OF GIVE-UPS IN DEDUCTIONS AND EXEMPTIONS ARE INVOLVED. WE HAVE CHECKED THIS PROPOSITION OUT AS WE DID HERE IN THE FORM OF THE TREASUREY PROPOSALS SURFACED LAST NOVEMBER, BUT HAVE ALSO TESTED THE BRADLEY-GEPHARDT ALTERNATIVE TAX SIMPLIFICATION APPROACH IN OTHER STUDIES AND THE RESULTS ARE ALMOST IDENTICAL.

IN THE CASE OF THE ORIGINAL TREASURY PLAN, WHICH WE UNDERSTAND IS BEING MODIFIED SECRETARY BAKER, THE ORIGINAL PLAN'S APPROACH OF LOWERING THE TAXES OF INDIVIDUALS WHILE INCREASING THOSE ON BUSINESS IS VIEWED AS FAIR BY 57-31%. AND A NEARLY IDENTICAL 59-32% FAVOR THE PLAN ITSELF OVERALL.

AMERICANS ARE SO EAGER TO SEE THE NATION'S TAX LAWS SIMPLIFIED THAT THEY'RE WILLING TO HOLD THEIR NOSES AND FAVOR A TAX SIMPLIFICATION PACKAGE EVEN IF IT ELIMINATES SOME POPULAR ITEMS: BY 66-27% THEY ACCEPT THE SIMPLIFICATION PACKAGE IF IT LIMITS DEDUCTIONS OF CHARITABLE CONTRIBTIONS; BY 65-26% THEY ACCEPT THE NOTION OF ELIMINATING DEDUCTIONS ON SECOND OR VACATION HOMES; BY 65-27% THEY ACCEPT LIMITING DEDUCTIONS OF INTEREST PAID ON PERSONAL DEBT; BY 64-25% ACCEPT THE IDEA THAT CAPITAL GAINS WOULD BE TAXED AS ORDINARY INCOME, AND BY 63-30% WOULD FIND THE PLAN ACCEPTABLE IF IT REDUCES SIGNIFICANTLY THE TAX BREAKS BUSINESSES GET FOR DEPRECIATION OR IF IT ELIMINATES THE INVESTMENT TAX CREDIT. THEY WOULD EVEN FIND A TAX SIMPLIFICATION PLAN ACCEPTABLE BY 52-40% IF IT TAXED GROUP HEALTH INSURANCE. THIS IS A REAL MEASURE OF THE PUBLIC'S APPETITE FOR MAJOR TAX REFORM.

FUNDAMENTALLY, MR. CHAIRMAN, IT IS EVIDENT FROM THESE RESULTS THAT THE NOTION OF TAX SIMPLIFICATION IS ONE WHOSE TIME HAS COME. PEOPLE HAVE BECOME DOWNRIGHT CYNICAL AND RESENTFUL OF THE TAX SYSTEM, VIEWING IT AS A RIP-OFF FOR THE PRIVILEGED AND AT THE EXPENSE OF THE BROAD MIDDLE INCOME FAMILIES OF THE COUNTRY. ⟶

AND, IF WE ARE NOT TO GO THE ROUTE OF THE FRENCH OR ITALIANS OR OF OTHER PEOPLE WHO MAKE TAX AVOIDANCE AND EVEN EVASION A NATIONAL PASTIME, THEN THE URGENT BUSINESS OF ENACTING A FAIR AND EQUITABLE TAX SIMPLIFICATION PLAN SHOULD BE IN ORDER. THE PUBLIC WANTS SUCH A REFORM TO BE REVENUE NEUTRAL, ALTHOUGH THEY ARE WILLING TO SEE SOME TAXES RAISED IN ORDER TO HELP REDUCE THE DEFICIT. BUT THEY WANT SUCH ACTION TO BE SEPARATE AND DISTINCTLY KEPT APART. IT MUST BE REMEMBERED THAT MOST PEOPLE FEEL THEY BENEFIT FROM TAX REFORM, INDEED ALL BUT THOSE IN THE HIGHEST INCOME BRACKETS FEEL THAT WAY. BY CONTRAST, CUTTING THE FEDERAL DEFICIT MEANS SACRIFICE DOWN THE LINE.

Study No. 851003

SHAPING A COMPROMISE:

AMERICANS' ATTITUDES TOWARD REDUCING THE DEFICIT AND SIMPLIFYING TAXES

Conducted for

Sentry Insurance

April, 1985

Project Director:

Merl W. Baker, Vice President

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FOREWORD FROM SENTRY INSURANCE

Americans and their elected leaders are increasingly troubled by two pressing economic issues: an enormous federal budget deficit, and a federal income tax system most people consider unfair. Sentry Insurance commissioned this study to help give the public a voice in this debate.

Rather than focusing narrowly on a single issue, we asked the Harris organization to conduct a broad national survey encompassing the major proposals for deficit reduction and tax simplification now being considered in Washington. The survey asks Americans how serious a problem they believe the deficit is for the country -- and for their personal economic futures. It asks them to choose among possible spending cuts and tax increases, then asks what more they would do if their first choices didn't reduce the budget significantly. And it explores the trade-offs Americans are willing to make in the interest of tax simplification.

Shaping A Compromise: Americans' Attitudes Toward Reducing the Deficit and Simplifying Taxes is our ninth major opinion research project since 1973. The Sentry Studies are part of our continuing public affairs program in which we provide new and important information on issues of concern to government, business and the public.

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A WORD ABOUT THIS STUDY

This research was conducted by telephone among a representative cross section of 1,253 Americans aged 18 years and over between February 1 and February 12, 1985. A full description of the methodology appears as an appendix to this report.

It should be noted that percentages in the tables may not always add to 100 because of rounding.

Copies of the questionnaire used in this study are available from Louis Harris and Associates, Inc.

EXECUTIVE SUMMARY

While the nation's leaders hedge and posture in Washington, the American people are quickly making up their minds about how they want to see the deficit cut and how they want the tax system simplified and made more fair. This study finds the public assigning far greater urgency to both tasks -- and converging far more rapidly on specific policies to achieve their goals -- than the tenor of today's debate would suggest.

Always distasteful, the deficit is perceived in this analysis not only as a major problem for the country but also as a direct threat to the economic well-being of millions of Americans personally. The public associates a host of serious economic ills with continuing high deficits and worries most about the deficit forcing up interest rates. By a staggering 84-11% Americans are demanding that the deficit be cut significantly by 1988.

How to do it? In the abstract, spending cuts are always more attractive than raising taxes. But this study shows that Americans bring both a sense of realism and of balance to the tough decisions ahead. Indeed, solid majorities would vote as members of Congress to:

-- Limit deductions of interest paid on credit card charges, car loans, and other personal debt to $5,000 a year;

-- Disallow the cost-of-living adjustment (COLA) for federal and military retirees for one year;

-- Reduce the growth of defense spending;

-- Freeze Medicare payments to doctors and hospitals for one year;

-- Limit deductions of charitable contributions to those exceeding a certain percentage of income; and

-- Cut the pay of federal employees by 5%.

To be sure, several sacred cows continue to graze in the budget pasture even as the urgency of cutting the deficit approaches fever pitch. Federal support for farmers and small business achieves this status; Americans reject disallowing the Social Security COLA for one year, and they reject taxes on such employee benefits as group life and health insurance. But on a number of important and contentious items, Americans are opening more doors for action than ever before.

Similarly for tax simplification, the public is fed up with today's tax system and is prepared to make major changes. By nearly 2 to 1 the American people endorse the broad outlines of the Treasury Department tax simplification proposal advanced last November -- used in this study as a proxy for a family of "flat" tax proposals. And they endorse these types of proposals even more strongly after an elaborate description of the tax preferences they might have to give up and new taxes they might have to pay. Of ten provisions tested, only new taxes on employee benefits precipitate substantial (but still minority) opposition to the plan overall. By 75-18%, Americans say the tax simplification plan will be no less fair than the current system. Support for its enactment includes majorities in all regions of the country, majorities of all age groups, pluralities or majorities of those at all income levels, and majorities of Republicans, Democrats, and independents.

With this study Americans are sending their leaders an important and timely message: get moving on both fronts, they say. This research provides every indication that Americans are not only willing to confront and accept

painful budget decisions to reduce the deficit but are also demanding leadership to do so. And, concurrently -- even if at a lower level of priority -- they see a major opportunity to put the nation's income tax system on a simpler and more fair footing, even if they have to give up some cherished tax preferences to do so.

How deficit reduction and tax simplification will fare in the legislative process ahead very much remains to be seen. But these findings leave no doubt that Americans not only are impatient for action but also have high hopes that the nation's leadership will seize these rare opportunities.

CHAPTER 1: THE PERCEIVED SERIOUSNESS OF THE FEDERAL BUDGET DEFICIT

Concern about the federal budget deficit has reached fever pitch. More than 6 Americans in 10 (63%) consider the 1984 level of the deficit very serious for the country, while an additional 27% regard deficits of this magnitude as somewhat serious. Older and better-educated Americans demonstrate the greatest concern (Table 1).

"Poppycock," the skeptics have said. The deficit is a mere abstraction for most people who deplore it for the same reason they deplore any excessive debt. It's not a voting issue, they say.

Yet this study shows that nearly half (49%) of all adult Americans consider the deficit very serious for them personally (Table 1), while an additional 35% consider it somewhat serious. Scarcely 1 American in 10 (12%) personally considers the deficit not serious at all.

Economists can debate the impact of high budget deficits endlessly, but the American people aren't waiting for their verdict. By overwhelming majorities, Americans associated the deficit with a host of economic ills (Table 2):

-- By 74-20%, the public considers it likely that high federal budget deficits will increase interest rates in the next twelve months.

-- By 74-22%, Americans expect the deficit to increase inflation in the next twelve months.

-- By 69-25%, the public fears a slowing of the rate of economic growth on account of the deficit.

-- By 68-27%, Americans are looking for an increase in unemployment in the next year because of deficits.

-- By 62-33%, Americans think the deficit is likely to cause a recession in the economy in the year ahead.

Observation:

The spectre of rising interest rates cuts a broad swath in these concerns associated with high federal budget deficits, shared by upper and lower income Americans alike as well as by those better educated and less educated. Other fears are more targeted. Lower income Americans -- those most vulnerable to inflation, unemployment, and recession -- are significantly more worried than their upper income counterparts that high deficits will bring these problems back for a return engagement. Democrats as a group are consistently more likely to associate various economic ills with the deficits than Republicans, but majorities of Republicans consider each of these economic problems at least somewhat likely in the next twelve months because of the deficit.

It comes as no surprise, then, that Americans overwhelmingly support President Reagan's stated objective of cutting the deficit significantly by 1988 (Table 3). More than 6 Americans in 10 (61%) consider this objective very important, while an additional 23% regard it as somewhat important. Only 11% say cutting the deficit significantly isn't important. Support for cutting the deficit is most intense among better educated and high-income Americans, and among Republicans and independents. But majorities of every demographic group in society consider cutting the deficit significantly to be a very important objective.

Observation:

That people dislike public deficits is old news. What these findings add to the debate is an understanding of the intensity, character, and political power of the concern. Far from being seen only as a distasteful abstraction, the deficit emerges in this analysis as a real threat to the economic well-being of practically all Americans. Across the board, they fear the deficit will force interest rates up -- a voting issue if ever there was one. More selectively, vulnerable groups in society see deficits threatening their own prosperity. The nuances of public finance may still be abstract for most Americans, but increasingly people are linking the level of federal deficits to their own well-being -- and concluding that the deficit has to be cut.

Q.1a,1b

Table 1

PERCEIVED SERIOUSNESS OF THE SIZE OF THE FEDERAL BUDGET DEFICIT

Q.: The federal budget deficit was almost 200 billion dollars in fiscal year 1984. Do you feel that deficits of this size are a very serious problem, somewhat serious, or not serious at all for the country?

Q.: And how about for you personally -- would you say federal budget deficits of this size are a very serious problem, somewhat serious, or not serious at all?

	For the Country						For You Personally					
	Total	18-49 Years	50 and Over	High School Graduate or Less	Some College	College Graduate or More	Total	18-49 Years	50 and Over	High School Graduate or Less	Some College	College Graduate or More
Base	1253	837	414	632	299	322	1253	837	414	632	299	322
	%	%	%	%	%	%	%	%	%	%	%	%
Very serious	63	59	69	60	68	69	49	46	54	49	50	48
Somewhat serious	27	31	21	27	26	27	35	39	27	33	38	37
Not serious at all	4	4	3	5	3	2	11	12	10	11	10	12
Not sure	6	6	7	8	3	2	5	4	8	7	3	2

Q.2

Table 2

PERCEIVED LIKELIHOOD OF THE FEDERAL BUDGET DEFICIT CAUSING VARIOUS ECONOMIC PROBLEMS IN THE NEXT TWELVE MONTHS

Q.: In the next twelve months, how likely do you think it is that high federal budget deficits will (READ EACH ITEM) -- very likely, somewhat likely, not very likely, or not likely at all?

		Income		Party Affiliation		
	Total	$25,000 or Less	$25,001 or More	Republican	Democrat	Independent
Base	1253	635	566	424	447	329
	%	%	%	%	%	%
Increase interest rates						
Very likely	41	41	43	35	46	42
Somewhat likely	33	35	30	36	30	35
Not very likely	13	11	16	18	9	13
Not likely at all	7	6	7	6	7	7
Not sure	6	7	4	5	8	3
Increase inflation						
Very likely	38	42	31	32	45	35
Somewhat likely	36	33	42	38	35	34
Not very likely	14	13	17	18	9	19
Not likely at all	8	8	7	8	6	9
Not sure	4	4	2	3	5	3
Increase unemployment						
Very likely	33	38	26	28	40	31
Somewhat likely	35	33	39	33	35	38
Not very likely	16	14	19	22	10	19
Not likely at all	11	11	12	13	10	8
Not sure	5	5	4	4	5	4
Slow the rate of economic growth						
Very likely	30	31	29	28	33	28
Somewhat likely	39	38	41	38	42	36
Not very likely	16	17	17	20	12	19
Not likely at all	9	7	10	10	6	11
Not sure	6	7	3	4	7	6
Cause a recession in the economy						
Very likely	26	31	19	20	31	25
Somewhat likely	36	34	38	33	40	33
Not very likely	20	17	26	27	14	23
Not likely at all	13	12	14	15	10	13
Not sure	5	7	3	5	4	7

Q.6

Table 3

PERCEIVED IMPORTANCE OF CUTTING THE FEDERAL DEFICIT BY 1988

Q.: President Reagan has said that he wants to cut the annual federal budget deficit by more than half by 1988. In general, do you think this is a very important objective, somewhat important, not very important, or not an important objective at all?

		Education			Income						Party Affiliation		
	Total	High School Graduate or Less	Some College	College Graduate or More	$7,500 or Less	$7,501-$15,000	$15,001-$25,000	$25,001-$35,000	$35,001-$50,000	$50,001 or Over	Republican	Democrat	Independent
Base	1253	632	299	322	127	211	297	261	182	123	424	447	329
	%	%	%	%	%	%	%	%	%	%	%	%	%
Very important	61	60	61	68	53	56	60	70	67	64	63	58	64
Somewhat important	23	22	29	24	17	26	26	19	26	29	27	21	23
Not very important	7	7	5	5	10	7	8	5	6	3	5	9	6
Not important at all	4	5	3	2	9	4	4	3	-	-	1	7	3
Not sure	5	6	3	1	12	7	2	3	1	3	4	5	3

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CHAPTER 2: REDUCING THE DEFICIT: HOW THE PUBLIC REACTS TO HIGHER TAXES AND LOWER SPENDING

Americans are not ideologues when it comes to reducing the federal deficit. By 82-9% they prefer decreasing spending to raising taxes as the way to do the job (Q.3). But when confronted with the reality of the choices, only 29% say the deficit can be reduced by spending cuts alone (Q.15). Fully 60% think it will be necessary to both cut spending and raise taxes. Only 3% opt for solving the problem by only raising taxes.

Tax Increases

So intense has concern about the deficit become that Americans today are willing to consider a surprising range of tax increases (Table 4). Significant pluralities, in fact:

-- Favor limiting deductions of charitable contributions to those exceeding a certain percentage of income (50-40%), including Americans who itemize on their federal income tax returns;

-- Favor eliminating (by 49-40%) deductions of interest paid on second or vacation homes, including upper income Americans and those who itemize; and

-- Favor limiting deductions of interest paid on credit card charges, car loans and other personal debt to $5,000 a year (by 48-40%).

Yet Americans' appetite for tax increases goes only so far. They favor only narrowly (by 45-42%) a significant reduction in the tax breaks businesses get for depreciation on new plants and equipment, or taxing capital gains as ordinary income (41-38%). And they oppose outright:

-- Eliminating the investment tax credit for business (opposed by 47-37%);

-- Eliminating deductions of local property taxes (56-31%);

-- Eliminating deductions of state and local income taxes (51%-30%);

-- Taxing employees for group life insurance premiums that are paid by employers (62-30%); and

-- Taxing employees for group health insurance premiums that are paid by employers and that exceed a certain amount (61-28%).

Observation:

These findings point up both opportunities and challenges for policymakers. The opportunities lie in seizing public support for some of the easier tax increases and transforming this support into policy. The challenges lie clearly in the enormous political risks of raising taxes (or eliminating preferences) on more popular items in a vacuum.

Americans who say they are willing to see their own taxes go up to cut the federal deficit (73%, Q.16), for example, are no more willing than Americans as a whole to favor the least popular measures. Americans who itemize their deductions are consistently more opposed to the least popular tax increases than the public at large. And while the entire nation opposes taxing such employee benefits as group life and health insurance by better than two-to-one margins, employed Americans (50% of the total) oppose these measures even more strongly.

The public may be ready to cut the deficit, but not through tax increases -- either on individuals or businesses -- alone, although they will accept some tax plans if need be.

Q.4

Table 4

POSITIONS ON VARIOUS TAX CHANGES TO CUT THE FEDERAL DEFICIT

Q.: Various proposals have been made to reduce the federal deficit. Some involve tax changes, others changes in federal spending. Let's take the tax side first. To cut the size of the budget deficit, would you favor or oppose a proposal that (READ EACH ITEM)?

	Total	Income		Itemizes Tax Deductions	Full-Time Employee	Willing To Pay Higher Taxes To Cut Deficit
		$25,000 or Less	$25,001 or More			
Base	1253	635	566	759	667	939
	%	%	%	%	%	%
Limits deductions of charitable contributions to those exceeding a certain percentage of income						
Favor	50	50	52	51	55	52
Oppose	40	38	42	44	41	39
Not sure	10	12	5	6	5	9
Eliminates deductions of interest paid on second or vacation homes from federal taxable income						
Favor	49	48	52	50	52	53
Oppose	40	41	39	42	41	38
Not sure	11	12	9	8	6	9
Limits deductions of interest paid on credit card charges, car loans, and other personal debt to $5,000 a year						
Favor	48	47	51	49	51	52
Oppose	40	40	42	42	41	38
Not sure	12	13	8	9	7	9
Reduces significantly the tax breaks businesses get for depreciation on things like new plants and equipment						
Favor	45	47	42	45	44	47
Oppose	42	39	48	45	47	40
Not sure	13	14	10	10	9	12

(Continued)

Q.4

Table 4 (Continued)

POSITIONS ON VARIOUS TAX CHANGES TO CUT THE FEDERAL DEFICIT

	Total	Income $25,000 or Less	Income $25,001 or More	Itemizes Tax Deductions	Full-Time Employee	Willing To Pay Higher Taxes To Cut Deficit
Base	1253	635	566	759	667	939
	%	%	%	%	%	%
Taxes capital gains on things like stocks as ordinary income instead of at the lower capital gains rate						
Favor	41	42	42	43	46	45
Oppose	38	35	44	41	40	36
Not sure	20	23	15	16	15	19
Eliminates the investment tax credit businesses now get for things like new plants and equipment						
Favor	37	40	33	36	36	39
Oppose	47	41	57	52	56	47
Not sure	16	19	10	12	8	15
Eliminates deductions of local property taxes from federal taxable income						
Favor	31	33	28	31	28	31
Oppose	56	52	62	60	64	58
Not sure	13	14	10	9	8	11
Eliminates deductions of state and local income taxes and sales taxes from federal taxable income						
Favor	30	31	28	29	29	32
Oppose	51	48	58	55	57	51
Not sure	18	21	13	17	14	17
Taxes employees for group life insurance premiums that are paid by employers						
Favor	30	30	28	29	25	30
Oppose	62	60	65	64	69	62
Not sure	9	10	7	7	6	8
Taxes employees for group health insurance premiums that are paid by employers and that exceed a certain amount						
Favor	28	29	26	26	25	30
Oppose	61	59	66	65	68	61
Not sure	11	12	8	9	7	10

Spending Cuts

Both generally and in terms of specifics, Americans are more agreeable to cutting the spending of the federal government than to raising taxes. Indeed, the public today is demonstrating even more flexibility on spending than it is on taxes in view of the deficit crisis. And programs considered sacred cows in recent memory are increasingly open to scrutiny:

-- By 60-33%, the public now favors disallowing the cost-of-living adjustment for federal and military retirees for one year, a position taken even more strongly by retirement-age Americans themselves.

-- By 58-33%, Americans favor reducing the growth of real defense spending to 1% or 2% instead of the roughly 6% proposed by President Reagan.

-- By 55-36%, Americans support continuing the freeze on Medicare payments to doctors, a position taken more strongly by Americans over age 50 and most strongly by those 65 or over (67-24%).

-- By a startling 53-41%, the public favors disallowing the cost-of-living adjustment on Social Security for one year. Americans 65 and over, however, favor this idea more narrowly, by 48-42%.

-- By 53-42%, Americans favor disallowing the cost-of-living adjustment for food stamp recipients for one year.

On two proposed spending measures, the public divides almost evenly:

-- By 48-47%, Americans narrowly favor cutting the pay of federal employees by 5%. Older Americans, middle-income Americans, and Republicans and independents are among the groups favoring this cut; younger people, higher income households, and Democrats are more likely to oppose it.

-- By 47-45%, the public narrowly opposes eliminating federal spending for Amtrak and other rail systems. Americans living in the East and those in the suburbs are among those most strongly opposed to this proposal (54-42% and 51-42%, respectively).

On several important spending measures, opposition to cuts overwhelms support:

-- By 51-44%, Americans oppose eliminating federal spending to help small businesses.

-- By 50-41%, the public opposes reducing price support payment to farmers.

-- By 55-38%, Americans oppose eliminating federal revenue sharing with cities.

-- By 61-35%, Americans oppose restricting college tuition grants from government for students from middle-income families -- a proposal opposed even more strongly by Americans under the age of 50 and by middle-income households.

-- By 62-32%, the public opposes reducing Medicare payments to hospitals.

Observation:

These findings show that Americans are opening more doors to the nation's leaders to reduce the budget deficit than many other studies -- including those by the Harris firm -- have shown in the recent past. Certainly nothing approaching a meat-cleaver mentality is evident in these data: Americans seem most attracted to notions such as temporarily disallowing COLA's and freezing certain types of spending while shying away from such extremes as eliminating whole programs. Yet the willingness to compromise is clearly in evidence -- an important first step in breaking the seemingly intractable barriers to national agreement on how best to cut the deficit.

Q.5

Table 5 ——

POSITIONS ON VARIOUS SPENDING REDUCTIONS TO CUT THE SIZE OF THE FEDERAL DEFICIT

Q.: Now let's look at the spending side. To cut the size of the federal budget deficit, would you favor or oppose (READ EACH ITEM)?

		Age			
	Total	18-29 Years	30-49 Years	50-64 Years	65 and Over
	1253	352	485	238	176
	%	%	%	%	%
Disallowing the cost-of-living adjustment for federal and military retirees for one year, but increasing it by how much inflation goes up after that					
Favor	60	59	60	60	64
Oppose	33	34	34	33	25
Not sure	7	6	6	7	11
Reducing the growth of defense spending to 1% or 2% instead of the 6% or so that the President is likely to propose					
Favor	58	60	58	57	57
Oppose	33	34	34	32	30
Not sure	9	6	8	11	13
Continuing the freeze on Medicare payments to doctors					
Favor	55	45	56	59	67
Oppose	36	47	36	32	24
Not sure	9	8	8	9	9
Disallowing the cost-of-living adjustment on Social Security for one year, but increasing it by how much inflation goes up after that					
Favor	53	55	54	51	48
Oppose	41	39	41	42	42
Not sure	7	6	5	7	10

(Continued)

Q.5

Table 5 (Continued)

POSITIONS ON VARIOUS SPENDING REDUCTIONS TO CUT
THE SIZE OF THE FEDERAL DEFICIT

		Age			
	Total	18-29 Years	30-49 Years	50-64 Years	65 and Over
	1253	352	485	238	176
	%	%	%	%	%
Disallowing the cost-of-living adjustment for food stamp recipients for one year, but increasing it by how much inflation goes up after that					
Favor	53	58	53	51	47
Oppose	42	38	43	44	42
Not sure	5	4	4	4	11
Cutting the pay of federal employees by 5%					
Favor	48	46	45	51	56
Oppose	47	49	49	46	37
Not sure	5	5	6	3	7
Eliminating federal spending for Amtrak and other rail systems					
Favor	45	45	43	49	46
Oppose	47	48	49	45	41
Not sure	8	7	8	6	12
Eliminating federal spending to help small businesses					
Favor	44	46	35	50	51
Oppose	51	52	61	45	37
Not sure	5	2	4	5	12
Reducing price support payment to farmers					
Favor	41	43	39	41	43
Oppose	50	51	52	51	44
Not sure	9	6	10	8	14
Eliminating revenue sharing, the program under which the federal government gives cities money to use pretty much as the cities please					
Favor	38	38	37	39	36
Oppose	55	57	56	53	51
Not sure	7	4	7	8	13

(Continued)

Q.5

Table 5 (Continued)

POSITIONS ON VARIOUS SPENDING REDUCTIONS TO CUT
THE SIZE OF THE FEDERAL DEFICIT

	Total	Age 18-29 Years	30-49 Years	50-64 Years	65 and Over
	1253	352	485	238	176
	%	%	%	%	%
Restricting college tuition grants from government for students from middle income families					
Favor	35	26	33	47	41
Oppose	61	72	64	46	51
Not sure	4	2	3	7	7
Reducing Medicare payments to hospitals					
Favor	32	32	29	35	35
Oppose	62	63	65	59	57
Not sure	6	4	6	6	7

Trying a Little of Both

Studies that measure only the public's willingness to raise taxes or to cut spending provide important insights into Americans' priorities, but often end up between a rock and a hard place. Raise taxes, the voters say, but not my taxes; cut spending, they continue, but not spending that benefits me. What's a member of Congress to do?

To surmount the limitations of conventional analysis, this study actually invited respondents to put themselves in the place of their elected representatives and to consider a combined smorgasbord of tax increases and spending cuts. Respondents who said they considered cutting the deficit significantly by 1988 important were asked how they would vote in Congress on each of a dozen different measures. Respondents opposing particular measures in the first round of questioning were then asked how they would vote if all the measures they favored didn't meet the deficit reduction goal. The exercise was designed to replicate, insofar as possible, the choices now confronting actual members of Congress to see how their constituents would cast their ballots (Table 6).

The exercise reveals solid majority support for several important and contentious issues now before the Congress:

— Fully 60% of all Americans would vote in favor of limiting deductions of interest paid on credit card charges, car loans, and other personal debt to $5,000 a year; 18% would vote against the measure; and 15% don't consider cutting the deficit significantly by 1988 important or aren't sure, and thus weren't asked the question.

— Nearly 6 Americans in 10 (59%) would vote as members of Congress to disallow the cost-of-living adjustment for federal and military retirees for one year.

-- An identical percentage (59%) would vote to reduce the growth of defense spending.

-- Fifty-eight percent of all Americans would vote to freeze Medicare payments to doctors and hospitals for one year.

-- Fifty-seven percent of all Americans would vote to limit deductions of charitable contributions to those exceeding a certain percentage of income.

-- A solid 55% would vote as members of Congress to cut the pay of federal employees by 5%.

Observation:

Taken together, these measures could put a major dent in the budget deficits now projected. Under this type of pressure, Americans are telling their representatives to bite the bullet on interest and charitable contributions deductions and on spending for federal and military retirees, defense, Medicare, and the salaries of federal employees. Few members of Congress would look forward to casting any of these votes. But their constituents are telling them that reducing the deficit is worth it.

Several measures, however, are without clear majorities in support of Congressional action:

-- By 49-27% the public would reduce business tax incentives for new investment in plants and equipment, a surprising reminder that the public isn't clamoring to reduce the deficit solely by socking business.

-- Forty-five percent of all Americans would vote as members of Congress to eliminate deductions of state and local income taxes and sales taxes, while 30% would vote against such a measure. If those Americans who consider cutting the deficit unimportant or who aren't sure (15% of all adults) weighed in with those opposed to the measure, the result would be a 45-45% wash.

-- Forty-four percent of the American people would vote in favor of reducing federal support for farmers and small businesses, but those who consider cutting the deficit unimportant combined with those who oppose the move could constitute a majority in opposition.

-- An identical proportion favors disallowing the cost-of-living adjustment on Social Security for one year, but here too, a coalition of those indifferent to cutting the deficit with those opposed to the measure could constitute a majority in opposition.

-- Least attractive as measures to reduce the deficit are proposals to tax such employee benefits as group life and health insurance, favored by 39% and 41%, respectively.

Observation:

The public's huge appetite for deficit reduction notwithstanding, members of Congress run substantial political risks in supporting several of the proposed measures tested. Farmers and small businesses appear to have the public's support. Disallowing the Social Security COLA would probably invite strong public disapproval. And taxing employer-paid employee benefits could evoke a storm of opposition ranging up to 54-39% for group life insurance and 52-41% for group health insurance.

Q.7a,7b

Table 6

PLAYING CONGRESS: HOW AMERICANS WOULD VOTE TO REDUCE THE BUDGET DEFICIT

Base: Those who consider cutting the deficit by 1988 very/somewhat important

Q.: If you were a member of Congress and had to vote on a proposal to reduce the annual budget deficit by more than half, would you vote in favor of a proposal to (READ EACH ITEM), or would you vote against it?

Base: Would vote against a specific proposal in Q.7a

Q.: If all the proposals you would vote in favor of to reduce the budget deficit didn't add up to enough to cut the deficit by more than half, would you then tend to vote in favor of a proposal to (READ EACH ITEM), or would you vote against it?

	Americans Who Consider Cutting the Deficit by 1988 Important (85%)			
		Q.7b		
	Q.7a Initial Position	Proportion of Those Initially Opposed Who Would Favor Proposal	Final Position	Final Position for All Americans
Base	1092		1092	1253
	%	%	%	%
Limit deductions of interest paid on credit card charges, car loans, and other personal debt to $5,000 a year				
Would vote in favor	57	38	71	60
Would vote against	37	58	22	18
Not sure	6	4	7	6
Disallow the cost-of-living adjustment for federal and military retirees for one year				
Would vote in favor	56	35	70	59
Would vote against	40	62	25	21
Not sure	4	2	5	4
Reduce the growth of defense spending				
Would vote in favor	58	31	69	59
Would vote against	38	67	25	21
Not sure	5	2	5	5

(Continued)

Q.7a,7b

Table 6 (Continued)

PLAYING CONGRESS: HOW AMERICANS WOULD VOTE TO REDUCE THE BUDGET DEFICIT

	Americans Who Consider Cutting the Deficit by 1988 Important (85%)			
	Q.7a Initial Position	Q.7b Proportion of Those Initially Opposed Who Would Favor Proposal	Final Position	Final Position for All Americans
Base	1092		1092	1253
	%	%	%	%
Freeze Medicare payments to doctors and hospitals for one year				
Would vote in favor	57	30	68	58
Would vote against	38	68	27	22
Not sure	5	2	6	5
Limit deductions of charitable contributions to those exceeding a certain percentage of income				
Would vote in favor	53	35	67	57
Would vote against	40	60	24	21
Not sure	7	6	9	7
Cut the pay of federal employees by 5%				
Would vote in favor	54	27	65	55
Would vote against	42	71	30	25
Not sure	4	2	5	4
Reduce business tax incentives for new investment in plants and equipment				
Would vote in favor	41	34	58	49
Would vote against	50	63	32	27
Not sure	8	3	10	8
Eliminate deductions of state and local income taxes and sales taxes				
Would vote in favor	36	31	53	45
Would vote against	57	61	35	30
Not sure	7	7	12	10

(Continued)

Q.7a,7b

Table 6 (Continued)

PLAYING CONGRESS: HOW AMERICANS WOULD VOTE TO REDUCE THE BUDGET DEFICIT

	Americans Who Consider Cutting the Deficit by 1988 Important (85%)			
	Q.7a	Q.7b		
	Initial Position	Proportion of Those Initially Opposed Who Would Favor Proposal	Final Position	Final Position for All Americans
Base	1092		1092	1253
	%	%	%	%
Reduce federal support for farmers and small businesses				
Would vote in favor	38	25	52	44
Would vote against	56	72	41	35
Not sure	6	3	7	6
Disallow the cost-of-living adjustment on Social Security for one year				
Would vote in favor	39	22	51	44
Would vote against	57	76	44	37
Not sure	4	1	5	4
Tax employees for group health insurance premiums that are paid by employers and that exceed a certain amount				
Would vote in favor	33	25	48	41
Would vote against	62	70	43	37
Not sure	6	5	8	7
Tax employees for group life insurance premiums that are paid by employers				
Would vote in favor	29	26	46	39
Would vote against	65	70	46	39
Not sure	6	3	8	6

The Dynamics of Decisionmaking

Testing various proposals in different contexts offers several real insights into how Americans view different policy options and how their positions shift (or don't shift) depending on the context and objective in which the proposal is considered (Table 7).

Of the tax increases tested in this study, for example, public support is significantly higher when the measure is tested as part of an overall tax increase and spending reduction package than when the measure is tested only as part of a tax increase plan.

Spending reductions, in contrast, generally show no such differences in support -- drawing about the same levels of support and opposition as part of a package as they do within the context of spending cuts above. Two noteworthy exceptions are Social Security and pay for federal employees:

-- Americans favor disallowing the Social Security COLA (by 53-41%) when they consider it only in the context of other distasteful spending cuts. But given the more realistic opportunity to consider it along with the possibility of raising certain taxes, the appeal of disallowing the COLA slips to 44%.

-- The public waffles on cutting the pay of federal employees when considering only spending cuts with 48% in favor and 47% opposed. But faced with the possibility of other spending cuts and tax increases, sympathy for federal employees evaporates quickly -- Americans end up squarely on the side of cutting federal employees' pay.

Observation:

The fact that public support for tax increases grows under pressure to reduce the deficit in this analysis, while support for spending cuts does not, reflects to a certain degree the spending side focus of the recent public debate. Indeed, public attitudes toward spending cuts may

be more nearly crystallized than attitudes toward tax increases. This study shows not only a surprising public willingness to consider tax hikes, but suggests as well that Americans will increasingly focus on the revenue side as the debate progresses.

Q.4,5,7a,7b

Table 7

THE DYNAMICS OF DECISIONMAKING

Q.: Various proposals have been made to reduce the federal deficit. Some involve tax changes, others changes in federal spending. Let's take the tax side first. To cut the size of the budget deficit, would you favor or oppose a proposal that (READ EACH ITEM)?

Q.: Now let's look at the spending side. To cut the size of the federal budget deficit, would you favor or oppose (READ EACH ITEM)?

Q.: If you were a member of Congress and had to vote on a proposal to reduce the annual budget deficit by more than half, would you vote in favor of a proposal to (READ EACH ITEM), or would you vote against it?

Base: Would vote against a specific measure in Q.7a

Q.: If all the proposals you would vote in favor of to reduce the budget deficit didn't add up to enough to cut the deficit by more than half, would you then tend to vote in favor of a proposal to (READ EACH ITEM), or would you vote against it?

	Proportion of All Americans Favoring a Specific Measure:	
Base: 1253	When Tested Against Only Other Tax or Spending Measures %	When Tested as Part of a Combined Tax and Spending Package %
Tax Measures		
Limits deductions of charitable contributions to those exceeding a certain percentage of income	50	57
Limits deductions of interest paid on credit card charges, car loans, and other personal debt to $5,000 a year	48	60
Reduces business tax incentives for new investment in plants and equipment	45	49
Eliminates deductions of state and local income taxes and sales taxes	30	45

(Continued)

Q.4,5,7a,7b

Table 7 (Continued)

THE DYNAMICS OF DECISIONMAKING

Base: 1253	Proportion of All Americans Favoring a Specific Measure: When Tested Against Only Other Tax or Spending Measures %	When Tested as Part of a Combined Tax and Spending Package %
Taxes employees for group life insurance premiums that are paid by employers	30	39
Taxes employees for group health insurance premiums that are paid by employers and that exceed a certain amount	28	41
Spending Measures		
Disallowing the cost-of-living adjustment for federal and military retirees for one year	60	59
Reducing the growth of defense spending	58	59
Disallowing the cost-of-living adjustment on Social Security for one year	53	44
Cutting the pay of federal employees by 5%	48	55
Reducing federal support for farmers and small businesses	41; 44	44

Note: Question wording reported in this table refers to that of Q.7a and Q.7b, which varies slightly from the wording in Q.4 and Q.5.

CHAPTER 3: SIMPLIFYING TAXES: SPECIAL INTERESTS VERSUS THE PEOPLE

Hand-wringing pundits in Washington are fond of pointing to the obstacles to major tax reform in the forseeable future. There are too many oxen being gored at once, they say, too many people angry, too many opportunities for otherwise unlikely coalitions to crush any initiative. Not a chance, they conclude.

Missing in these analyses is some understanding of how the American people feel about their tax system: they're fed-up, consider it unfair (by 65-29%, Q.8), and they're ready to change it in major ways. Using the Treasury Department's November 1984 proposal for tax simplification as a point of departure, this study finds deep and consistent public support for a major overhaul of the system premised on lowering marginal rates by broadening the tax base.

Table 8 provides some idea of the depth of public support. Americans favor the broad outlines of the Treasury proposal by nearly 2 to 1 (59-32%) and consider fair (by 57-31%) the original plan's effect of lowering (on average) individuals' taxes while increasing those on business but being revenue-neutral overall. Even after a full description of many of the current tax breaks that would be eliminated under these proposals, Americans favor the plan by <u>better</u> than 2 to 1 (61-29%).

Q.9,10,12a

Table 8

POSITION ON THE TREASURY'S SIMPLIFIED INCOME TAX PROPOSALS
BEFORE AND AFTER A FULL DESCRIPTION

Q.: The Reagan Administration is working on a plan to simplify federal taxes by reducing the number of tax brackets from fourteen to three and by raising the personal exemption. The plan calls for a basic tax rate of 15% or 25% for most people with a maximum tax of 35% for those in the highest income brackets. Deductions would still be allowed for home mortgage payments and a few other items. But the plan eliminates most other deductions in order to reduce tax rates overall. In general, do you favor or oppose this plan for a simplified federal income tax?

Q.: The Administration's plan is designed to raise the same amount of revenue as the present tax law. It reduces, on average, both tax rates and total tax bills for individuals, but increases taxes on businesses. In general, do you think this arrangement is fair, or unfair?

Q.: The tax simplification plan that the Reagan Administration is working on calls for elimination or reduction of each of the tax breaks I've just asked you about, as well as lower rates, on average, for individuals and a higher personal exemption. All things considered, do you favor or oppose this plan for a simplified federal income tax?

	All Americans		
	Before Full Description		After Full Description
	Q.9	Q.10	Q.12a
Base	1253	1253	1253
	%	%	%
Favor/fair	59	57	61
Oppose/unfair	32	31	29
Not sure	9	12	10

Giving Up Deductions Is a Small Price To Pay

Americans are surprisingly ambivalent about a number of tax preferences often regarded as sacrosanct; majorities say they'd be in about the same financial shape as they are now (instead of better or worse off) if each of eight existing preferences was eliminated (Table 9). The same is true even of Americans who itemize deductions on their federal returns with the exception of eliminating the deduction for local property taxes. Even in this case, however, a plurality of those who itemize say they would end up in about the same financial shape.

Understanding this, it comes as no surprise to find widespread public support for a tax simplification plan:

-- By 66-27%, Americans find the simplification plan acceptable if it limits deductions of charitable contributions to those exceeding a certain percentage of income. By 82-15%, they say they would be better off or in about the same shape financially if the plan eliminates this deduction.

-- By 65-26%, Americans consider the plan acceptable if it eliminates deductions of interest on second or vacation homes; they'd consider themselves better off or in the same shape by 83-11%.

-- By 65-27%, the public would go along with the plan if it limits deductions of interest paid on personal debt to $5,000 a year; by 79-17% they think they'd be better off or in about the same shape.

-- By 64-25%, the public will accept a tax simplification plan that taxes capital gains as ordinary income; even Americans who own stocks, bonds, or mutual funds would accept a plan with this provision (by 59-35%) as would the nation's highest income households (57-40%).

-- By 63-30%, Americans will go along with the simplification plan if it reduces significantly the tax breaks businesses get for depreciation or if it eliminates the investment tax credit. Nearly 8 Americans in 10 say they'd be better off or in about the same shape financially under the plan with either provision.

-- Majorities also find the plan acceptable if it eliminates deductions of state and local income taxes, sales taxes, and property taxes, although nearly 3 Americans in 10 think they would be worse off if the plan includes these provisions. Those who itemize are significantly more likely to think they'd be worse off financially.

-- New taxes on employee benefits are treated least generously. While majorities would accept a tax simplification plan including these provisions, fully 40% of all Americans would find a plan with these provisions unacceptable -- the highest opposition noted for any provision. Among the nation's full-time employees, opposition rises to 47% for taxing employees for group health insurance premiums that are paid by employers and that exceed a certain amount, and to 44% for taxing employees for group life insurance premiums that are paid by employers.

Observation:

So compelling is the public's desire for major tax reform that most preferences -- certainly the preferences that are slated for elimination in the Treasury proposal -- are seen as a small price to pay to simplify and make more fair the nation's income tax, the howls of special interest groups notwithstanding. But new taxes may be a tougher nut to crack, even as part of a package with solid public support. Substantial opposition both among the public, as a whole, and full-time employees, in particular, to new taxes on employee benefits is the only important cloud on the horizon for tax simplification as far as the American public is concerned.

Q.11a,11b

Table 9

POSITIONS ON SPECIFIC ELEMENTS OF THE TREASURY'S SIMPLIFIED INCOME TAX PROPOSALS

Q.: How do you think you would come out financially under this simplified tax plan if the plan also (READ EACH ITEM) -- do you think you would be better off overall, worse off, or in about the same shape overall?

Q.: And how acceptable to you would this overall plan to simplify the federal income tax be if it includes this provision -- very acceptable, somewhat acceptable, somewhat unacceptable, or very unacceptable?

	Personal Financial Impact			Position		
	Total Public	Item-ize	Employ-ees	Total Public	Item-ize	Employ-ees
Base	1253	759	667	1253	759	667
	%	%	%	%	%	%
Eliminates deductions of interest paid on second or vacation homes from federal taxable income						
Better off or same shape/ acceptable	83	84	87	65	66	67
Worse off/unacceptable	11	13	11	26	29	28
Not sure	5	3	2	8	5	4
Limits deductions of charitable contributions to those exceeding a certain percentage of income						
Better off or same shape/ acceptable	82	81	84	66	67	71
Worse off/unacceptable	15	17	15	27	28	25
Not sure	3	2	1	7	4	4
Reduces significantly the tax breaks businesses get for depreciation on things like new plants and equipment						
Better off or same shape/ acceptable	79	77	78	63	63	62
Worse off/unacceptable	14	17	18	30	32	33
Not sure	6	6	4	8	5	5

(Continued)

Q.11a,11b

Table 9 (Continued)

POSITIONS ON SPECIFIC ELEMENTS OF THE TREASURY'S SIMPLIFIED INCOME TAX PROPOSALS

	Personal Financial Impact			Position		
	Total Public	Item-ize	Employ-ees	Total Public	Item-ize	Employ-ees
Base	1253	759	667	1253	759	667
	%	%	%	%	%	%
Limits deductions of interest paid on credit card charges, car loans, and other personal debt to $5,000 a year						
Better off or same shape/ acceptable	79	78	79	65	65	69
Worse off/unacceptable	17	20	18	27	30	28
Not sure	4	2	3	7	5	4
Eliminates the investment tax credit businesses now get for things like new plants and equipment						
Better off or same shape/ acceptable	78	77	75	63	65	62
Worse off/unacceptable	17	20	22	30	31	34
Not sure	5	4	3	7	4	5
Taxes capital gains on things like stocks as ordinary income instead of at the lower capital gains rate						
Better off or same shape/ Acceptable	77	76	79	64	64	66
Worse off/unacceptable	16	19	17	25	29	27
Not sure	7	5	4	10	7	6
Eliminates deductions of state and local income taxes and sales taxes from federal taxable income						
Better off or same shape/ acceptable	66	62	61	58	57	57
Worse off/unacceptable	29	35	37	34	37	39
Not sure	6	3	3	9	6	5

(Continued)

Q.11a,11b

Table 9 (Continued)

POSITIONS ON SPECIFIC ELEMENTS OF THE TREASURY'S SIMPLIFIED INCOME TAX PROPOSALS

	Personal Financial Impact			Position		
Base	Total Public 1253 %	Itemize 759 %	Employees 667 %	Total Public 1253 %	Itemize 759 %	Employees 667 %
Eliminates deductions of local property taxes from federal taxable income						
Better off or same shape/ acceptable	65	56	63	55	51	54
Worse off/unacceptable	30	41	35	36	44	41
Not sure	4	4	3	8	5	5
Taxes employees for group life insurance premiums that are paid by employers						
Better off or same shape/ acceptable	63	62	59	53	53	52
Worse off/unacceptable	32	35	40	40	42	44
Not sure	5	3	1	7	5	3
Taxes employees for group health insurance premiums that are paid by employers and that exceed a certain amount						
Better off or same shape/ acceptable	62	57	54	52	51	49
Worse off/unacceptable	33	39	43	40	44	47
Not sure	5	4	2	8	5	4

Promoting Fairness

Significantly, 3 Americans in 10 think the Treasury's tax plan will be more fair than the current income tax system, and 45% expect it to be about as fair. Viewed differently, Americans expect the Treasury plan to be no less fair than the current system by 75-18% -- not an outstanding performance, but probably no worse than practically any alternative (Table 10). Better educated and higher income Americans and Republicans are significantly more likely than all Americans to think the Treasury's tax simplification plan will be more fair; Democrats are the political group most suspicious that it will be less fair.

When all is said and done, Americans still support the principles of a "flat" tax plan by an overwhelming 61-29% (Table 11):

-- Majority support encompasses all regions of the country, but is markedly cooler in the East.

-- Support rises with income to the $50,000-a-year level but drops off (to 60-31% in favor) for the nation's highest income households -- perhaps because these households now enjoy the greatest leverage from existing preferences.

-- More than 7 Republicans in 10 (71%) favor the plan, which isn't surprising. Yet a strong majority of Democrats (61%) do, too. Independents favor the plan by better than 2 to 1 (62-30%).

Observation:

The Treasury Department tax simplification plan -- and by extension its sister proposals in the Congress -- clearly enjoys considerably broader public support than many in Washington suspect. How the measures will fare as they work their way through the legislative process very much remains to be seen. But the American people are going to be disappointed if their leaders don't seize this opportunity to undertake major tax reform.

Q.13

Table 10

PERCEIVED FAIRNESS OF THE TREASURY'S SIMPLIFIED INCOME TAX PROPOSAL

Q.: All things considered, do you think this plan will be more fair, less fair, or about as fair as taxes are now under the current system?

		Education			Sex		Income						Party Affiliation		
Base	Total 1253	High School Graduate or Less 632	Some College 299	College Graduate or More 322	Men 609	Women 644	$7,500 or Less 127	$7,501- $15,000 211	$15,001- $25,000 297	$25,001- $35,000 261	$35,001- $50,000 182	$50,001 or Over 123	Republican 424	Democrat 447	Independent 329
	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%
Will be more fair	30	26	39	37	37	23	15	24	30	37	43	36	37	24	32
Will be less fair	18	16	19	21	16	19	16	17	19	16	16	21	13	22	17
Will be about as fair	45	49	39	37	42	48	53	53	44	43	37	38	44	46	45
Not sure	7	9	4	4	5	10	17	6	6	4	4	5	6	8	6

Q.12a

Table 11

FINAL POSITION ON THE TREASURY'S SIMPLIFIED INCOME TAX PROPOSAL

Q.: The tax simplification plan that the Reagan Administration is working on calls for elimination or reduction of each of the tax breaks I've just asked you about, as well as lower rates, on average, for individuals and a higher personal exemption. All things considered, do you favor or oppose this plan for a simplified federal income tax?

		Region				Income						Party Affiliation		
	Total	East	Mid-west	South	West	$7,500 or Less	$7,501-$15,000	$15,001-$25,000	$25,001-$35,000	$35,001-$50,000	$50,001 or Over	Republican	Democrat	Independent
Base	1253	314	312	387	240	127	211	297	261	182	123	424	447	329
	%	%	%	%	%	%	%	%	%	%	%	%	%	%
Favor	61	54	64	61	66	50	60	60	64	70	60	71	61	62
Oppose	29	36	28	28	24	34	27	31	30	24	31	22	36	30
Not sure	10	10	8	11	11	16	13	9	6	5	9	7	12	8

Simplify Taxes or Reduce the Deficit?

Congress now seems to be moving concurrently on these agendas, and in view of public support for both objectives, it's a good thing. Yet if push comes to shove, Americans would rather see Congress tackle the deficit monster first: by 63-26% Americans say reducing the deficit is more important (Table 12).

Observation:

In this regard, it's worth noting what a little repackaging can do. Limiting deductions of interest on personal debt is favored by 48-40% as a measure to reduce the deficit, but is considered acceptable by 65-27% as part of a tax simplification plan (Table 13). Eliminating deductions of state and local income taxes and sales taxes is opposed by 51-30% as part of a deficit reduction plan, but found acceptable by 58-34% as part of a tax simplification initiative. Similar relationships hold for each of ten measures tested.

It's possible that Americans associate deficit reduction with belt-tightening and sacrifice but welcome the promise of tax simplification. If so, it won't be surprising to see the distinction between the two objectives blur considerably in the months ahead.

Q.14

Table 12

THE PERCEIVED RELATIVE IMPORTANCE OF REDUCING THE DEFICIT OR SIMPLIFYING THE FEDERAL INCOME TAX

Q.: In general, which do you think is more important -- reducing the federal budget deficit or simplifying the federal income tax?

		Education			Income					
	Total	High School Graduate or Less	Some College	College Graduate or More	$7,500 or Less	$7,501-$15,000	$15,001-$25,000	$25,001-$35,000	$35,001-$50,000	$50,001 or Over
Base	1253	632	299	322	127	211	297	261	182	123
	%	%	%	%	%	%	%	%	%	%
Reducing the budget deficit	63	58	69	75	57	57	66	62	71	73
Simplifying taxes	26	28	23	19	26	28	24	27	23	22
Both (vol.)	6	6	5	3	3	7	5	8	3	4
Neither (vol.)	*	*	*	*	-	1	*	-	-	-
Not sure	6	7	2	2	13	6	5	3	3	1

*Less than 0.5%.

Q.4,11b

Table 13

THE PUBLIC'S POSITION ON VARIOUS TAX PROPOSALS PRESENTED AS DEFICIT REDUCTION MEASURES VERSUS PRESENTING THE PROPOSALS AS PART OF A TAX SIMPLIFICATION PLAN

Q.: Various proposals have been made to reduce the federal deficit. Some involve tax changes, others changes in federal spending. Let's take the tax side first. To cut the size of the budget deficit, would you favor or oppose a proposal that (READ EACH ITEM)?

Q.: And how acceptable to you would this overall plan to simplify the federal income tax be if it includes this provision -- very acceptable, somewhat acceptable, somewhat unacceptable, or very unacceptable?

Base: 1253	As a Measure To Reduce the Deficit %	As Part of a Plan To Simplify Taxes %
Limits deductions of charitable contributions to those exceeding a certain percentage of income		
Favor/acceptable	50	66
Oppose/unacceptable	40	27
Not sure	10	7
Eliminates deductions of interest paid on second or vacation homes from federal taxable income		
Favor/acceptable	49	65
Oppose/unacceptable	40	26
Not sure	11	8
Limits deductions of interest paid on credit card charges, car loans, and other personal debt to $5,000 a year		
Favor/acceptable	48	65
Oppose/unacceptable	40	27
Not sure	12	7
Taxes capital gains on things like stocks as ordinary income instead of at the lower capital gains rate		
Favor/acceptable	41	64
Oppose/unacceptable	38	25
Not sure	20	10

(Continued)

Q.4,11b

Table 13 (Continued)

THE PUBLIC'S POSITION ON VARIOUS TAX PROPOSALS PRESENTED AS DEFICIT REDUCTION MEASURES VERSUS PRESENTING THE PROPOSALS AS PART OF A TAX SIMPLIFICATION PLAN

Base: 1253	As a Measure To Reduce the Deficit %	As Part of a Plan To Simplify Taxes %
Reduces significantly the tax breaks businesses get for depreciation on things like new plants and equipment		
Favor/acceptable	45	63
Oppose/unacceptable	42	30
Not sure	13	8
Eliminates the investment tax credit businesses now get for things like new plants and equipment		
Favor/acceptable	37	63
Oppose/unacceptable	47	30
Not sure	16	7
Eliminates deductions of state and local income taxes and sales taxes from federal taxable income		
Favor/acceptable	30	58
Oppose/unacceptable	51	34
Not sure	18	9
Eliminates deductions of local property taxes from federal taxable income		
Favor/acceptable	31	55
Oppose/unacceptable	56	36
Not sure	13	8
Taxes employees for group life insurance premiums that are paid by employers		
Favor/acceptable	30	53
Oppose/unacceptable	62	40
Not sure	9	7
Taxes employees for group health insurance premiums that are paid by employers and that exceed a certain amount		
Favor/acceptable	28	52
Oppose/unacceptable	61	40
Not sure	11	8

CHAPTER 4: SUPPLEMENTAL REPORT: AMERICA'S FULL-TIME EMPLOYEES

Health Insurance

Practically all full-time employees in the U.S. have some form of health insurance: only 5% report that they have none. Fifty-seven percent have insurance provided by their employer, 18% pay for their health insurance themselves, and an identical percentage both pay for some health insurance themselves and have some provided by an employer (Table 14). If the tax laws were changed to tax employees on health insurance premiums paid for them by their employers, most (59%) would simply pay the higher taxes, while 28% would accept a combination of lower coverage and higher taxes. Only 7% of employees would reduce their health insurance coverage (Table 15).

Life Insurance

Equal proportions of employees (32%) have life insurance provided by their employer and life insurance they pay for themselves (Table 14). One in four have both forms of life insurance, while 11% have none.

Retirement or Pension Plans

Nearly two-thirds of employees (64%) have a retirement or pension plan provided by their employer, a proportion that rises with age and income up to the $50,000 level. The highest income employees are less likely to have a retirement or pension plan provided by their employer (Table 14).

Twenty-nine percent of all households have an Individual Retirement Account (IRA), including 39% of the households of full-time employees. Nineteen percent of all households have already contributed to their IRA for 1984, and an additional 5% plan to do so before April 15 (Table 16).

In thinking about retirement income, employees look first to their employers: 66% say they think an employer-provided pension should be a major part of their retirement income while only 52% assign this responsibility to Social Security (Table 17). Slightly more (55%) look to their own contributions to their retirement income to play a major part. When the chips are down, employees have confidence only in themselves; only 25% expect Social Security actually will be a major part of their retirement income, and only 41% expect an employer-provided pension to be a major part. Fully 50% expect their own contributions will be a major part of their income.

Q.F3d,F3e,F3f

Table 14

PROFILE OF EMPLOYEE BENEFITS

Base: Full-time employees

Q.: Do you have a retirement or pension plan provided by your employer, or not?

Q.: Do you have life insurance provided by your employer, life insurance you pay for yourself, or do you have no life insurance?

Q.: Do you have health insurance provided by your employer, health insurance you pay for yourself, or do you have no health insurance?

	All Full-Time Employees	Age			Income				
		18-29 Years	30-49 Years	50-64 Years	$15,000 or Less	$15,001-$25,000	$25,001-$35,000	$35,001-$50,000	$50,001 and Over
Base	667	193	343	123	109	154	165	134	88
	%	%	%	%	%	%	%	%	%
Retirement or pension plan provided by your employer									
Have	64	53	70	71	47	66	73	73	59
Do not have	35	47	30	29	52	34	26	26	41
Life insurance									
Provided by employer	32	40	27	34	21	34	34	39	30
Paid for by self	32	26	36	30	36	34	28	27	37
Both	25	16	28	31	16	22	30	29	31
Have none	11	18	8	5	27	10	7	5	1
Health insurance									
Provided by employer	57	65	55	53	45	60	55	74	54
Paid for by self	18	17	17	20	28	20	19	10	12
Both	18	11	20	24	12	17	22	11	28
Have none	5	7	6	3	13	2	5	3	5

Q.F3g

Table 15

HOW EMPLOYEES WOULD REACT TO A TAX ON HEALTH INSURANCE PREMIUMS PAID FOR THEM BY THEIR EMPLOYERS

Base: Full-time employees with employer-provided health insurance (38% of all adults)

Q.: If the tax laws are changed so that you have to pay income tax on health insurance premiums above a certain amount that are paid for you by your employer, what would you do -- would you reduce your health insurance coverage to keep your taxes from going up, or would you pay higher taxes to keep the same health insurance coverage, or would you accept a combination of slightly higher taxes and slightly lower health insurance coverage?

		Age			Income	
	Total	18-29 Years	30-49 Years	50-64 Years	$25,000 or Less	$25,001 or More
Base	518	147	274	93	187	317
	%	%	%	%	%	%
Would reduce coverage	7	10	6	4	7	6
Would pay higher taxes	59	52	63	60	51	66
Would accept combinstion	28	34	24	28	36	22
Not sure	6	4	7	8	6	5

Q.F4a,F4b,F4c

Table 16

PROFILE OF IRA OWNERSHIP AND CONTRIBUTIONS

Q.: Do you or does any member of your household have an Individual Retirement Account, also known as an IRA, or not?

Q.: Has a contribution been made to this IRA for 1984, or not?

Q.: Do you or does a member of your household plan to make a contribution to this IRA before April 15, or not?

		Income					
	Total	$7,500 or Less	$7,501- $15,000	$15,001- $25,000	$25,001- $35,000	$35,001- $50,000	$50,001 or Over
Base	1253	127	211	297	261	182	123
	%	%	%	%	%	%	%
Has IRA	29	4	11	24	44	48	73
Has contributed for 1984	19	2	6	15	28	33	52
Plans to contribute for 1984	5	1	1	3	6	10	13

Q.F3b,F3c

Table 17

EMPLOYEES' ATTITUDES TOWARD RETIREMENT INCOME

Base: Full-time employees

Q.: Thinking about your retirement, do you think (READ EACH ITEM) should be a major part of your retirement income, a minor part, or no part at all of your retirement income?

Q.: And what role do you think (READ EACH ITEM) will actually play -- do you think it will be a major part of your retirement income, a minor part, or no part at all of your retirement income?

Base: 667	Major Part		Minor Part		No Part at All	
	Should Be %	Will Be %	Should Be %	Will Be %	Should Be %	Will Be %
A pension provided by your employer						
All employees	66	41	23	39	8	17
Age						
18-29 years	64	33	28	45	7	21
30-49 years	67	44	23	38	9	17
50-64 years	68	48	16	32	7	14
Income						
$15,000 or less	69	40	20	30	9	28
$15,001-$25,000	73	44	18	39	7	16
$25,001-$35,000	64	39	25	48	6	9
$35,001-$50,000	65	43	30	43	4	12
$50,001 or more	55	43	25	26	14	28
Has group retirement plan	77	52	20	42	2	4
Has IRA	64	41	25	39	7	18
Social Security						
All employees	52	25	37	49	9	24
Age						
18-29 years	53	24	36	49	10	27
30-49 years	49	20	38	49	11	30
50-64 years	58	39	39	49	3	8

(Continued)

Q.F3b,F3c

Table 17 (Continued)

EMPLOYEES' ATTITUDES TOWARD RETIREMENT INCOME

Base: 667	Major Part		Minor Part		No Part at All	
	Should Be %	Will Be %	Should Be %	Will Be %	Should Be %	Will Be %
Income						
$15,000 or less	74	50	20	34	5	14
$15,001-$25,000	60	34	36	49	4	17
$25,001-$35,000	46	12	41	58	11	28
$35,001-$50,000	42	14	44	48	10	34
$50,001 or more	29	11	48	51	20	38
Has group retirement plan	51	22	39	51	8	25
Has IRA	41	14	47	54	12	30
Arrangements you've paid for yourself, such as an Individual Retirement Account, a 401(k) account, or a Keogh account						
All employees	55	50	29	34	9	11
Age						
18-29 years	60	55	27	31	6	9
30-49 years	56	54	32	32	9	11
50-64 years	48	34	26	43	17	17
Income						
$15,000 or less	42	43	29	28	18	19
$15,001-$25,000	58	47	25	38	10	13
$25,001-$35,000	61	56	31	33	5	7
$35,001-$50,000	53	53	31	32	10	10
$50,001 or more	66	55	30	36	3	9
Has group retirement plan	55	51	32	34	8	11
Has IRA	65	61	29	33	4	4

APPENDIX A: RESEARCH METHOD

The survey conducted in 1985 for Sentry Insurance was carried out by means of telephone interviews with 1,253 people 18 years of age or over. Quotas proportionate to Bureau of the Census data were set so that 48% of the respondents were male, 52% female. The sample was statistically constructed by means of a stratified unclustered systematic random selection that allows projections to be made to the entire adult population in the continental United States.

The sample was developed in a multistage process. First, a listing was developed of the latest estimates of the adult population of every state within each region in rank order. Then, a running cumulative total of gross sums was produced. A skip factor was calculated and a random number chosen. Beginning with that random number, sample points were assigned according to where the numbers fell on the running cumulative total of the adult population within the structure. This same procedure was applied to each state within each region to form Primary Sampling Units (PSU's).

At the next stage of selection, one telephone number for each PSU was randomly selected from the regularly updated Harris library of telephone directories. The selected numbers were then altered by dropping the last two digits and replacing them with randomly selected two-digit numbers. These numbers were appended until an interview was complete in each PSU.

The following profile of the sample shows the number of individuals in each subgroup and the weighted proportion of the total sample each group represents. Weighting was applied to education, age, sex, and race figures in order to bring them into line with the actual proportions of the population.

Table 18

PROFILE OF THE SAMPLE

	Number in Sample #	Unweighted Percentage %	Weighted Percentage %
Region			
East	314	25	25
Midwest	312	25	25
South	387	31	33
West	240	19	17
Size of Place			
Central city	382	30	29
Balance SMSA	572	46	45
Non SMSA	299	24	26
Age			
18-29 years	352	28	29
30-49 years	485	39	36
50-64 years	238	19	19
65 and over	176	14	16
Education			
High school graduate or less	632	50	66
Some college	299	24	17
College graduate or more	322	26	17
Sex			
Men	609	49	48
Women	644	51	52
Race			
White	1075	86	84
Black	113	9	11
Hispanic	65	5	6
Income			
$7,500 or less	127	10	13
$7,501-$15,000	211	17	19
$15,001-$25,000	297	24	24
$25,001-$35,000	261	21	20
$35,001-$50,000	182	15	12
$50,001 or more	123	10	8

The results achieved from surveys are subject to sampling error. Sampling error is defined as the difference between the results obtained from the sample and those that would have been obtained had the entire relevant population been surveyed. The size of sampling error varies both with the size of the sample and with the percentage giving a particular answer. The following table sets forth the range of error in samples of different sizes at different percentages of response:

Table 19

RECOMMENDED ALLOWANCE FOR SAMPLING
ERROR OF PROPORTIONS
(PLUS OR MINUS)

Sampling Tolerances (at 95% Confidence Level)
To Use in Evaluating Any Individual Percentage Result

Approximate Sample Size of Any Group Asked Question on Which Survey Result Is Based	Approximate Magnitude of Results				
	Survey Percentage Result at 10% or 90%	Survey Percentage Result at 20% or 80%	Survey Percentage Result at 30% or 70%	Survey Percentage Result at 40% or 60%	Survey Percentage Result at 50%
1,000	2	2	3	3	3
500	3	4	4	4	4
300	3	5	5	6	6
200	4	6	6	7	7

Representative OBEY. Thank you very much.

Let me play devil's advocate for a moment and try to question some of the assumptions in the poll just to get your response to objections or questions that people might raise about it.

Practicing politicians know that one of the keys in determining how operative an issue is, is the intensity with which the public reacts to an issue.

You indicate in your survey on table 2, for instance, how concerned people really are about the deficit. Is this just one of those cultural things that people always talk about but they don't really have a burning concern about, or is it something else?

When I see that table 2 indicates that less than half of the population, only 41 percent, say they believe the deficit is very likely to increase interest rates, 33 percent say that it's only somewhat likely. I don't know what that "somewhat likely" means and, as someone who is interested in whether people tell you "Believe it," or "Believe it!", there's a big difference.

When I look down these responses I see that only 38 percent think that it is very likely to increase inflation and 36 percent say somewhat likely. Only 33 percent say it's very likely to increase unemployment, and 35 percent say it's somewhat likely. How are we to measure that? Is that concern something other than a general vague worry or is it really an intense concern?

Mr. HARRIS. Mr. Chairman, let me answer that. You're raising what we call a methodological question. Here's the way you've really got to analyze that.

Take the top one there, increase interest rates, very likely 41 percent; somewhat likely 33 percent; not very likely 13 percent; not likely at all 7 percent; not sure 6 percent. Now you've got to take—the word we use in our business—you've got to dichotomize that where you take the top two where people think it's likely and the bottom two where they think it's unlikely, and when you take them and divide them that way, it's 74 to 20 percent who think it's likely.

Now the 41 percent that say very likely, those are people downright scared by this. The others say, you know, I think we're going to turn around one day and there it's going to be, inflation is going to return and interest rates are going to go up because the Federal deficit is going to do it.

What this series says when you do this dichotomization or combination of two and then versus two, 74 to 20 percent say our interest rates are going to go up as a result of the deficit, and inflation is likely to go up, 74 to 22 percent; unemployment, 68 to 27 percent; slow the rate of economic growth, 69 to 25 percent, and cause a recession—and most people don't think we're in a recession now—62 to 33 percent.

As I read that, what this says is that certain people are spelling out in almost no uncertain terms that unless something is done about this deficit and this excessive spending beyond what government takes in, then they can see double digit inflation on the way and with a recession. It's been the story all too familiar over the past 15 or 20 years since the 1960's. They see it just coming on again.

Does it mean that people are unduly pessimistic? I'd say they've probably got scar tissue all over their body because of what they have lived through and in spite of the soothing syrup from many people in high public places who are saying that all is fine, they're scared to death that this deficit is going to cause real harm and pain.

Representative OBEY. Let me ask you a question.

Mr. HARRIS. Mr. Chairman, may I add one more thing in my answer to that? This isn't in this study, but I was seriously struck I think it was last year during the election—we often ask people what do you think are the two or three major problems facing the country you would like to see government do something about, and I was struck that for the first time in my long—I have been in this field longer than I care to remember—and I'd say the first time I ever experienced this—the third ranking problem people volunteered was the Federal deficit after the economy generally and periods of war and peace. But it was fascinating that people would volunteer that. We had never gotten that before, which is an awfully good sign or measure of the intensity at which people worry about it.

Representative OBEY. Let me ask you another question related to the deficit. We have had a lot of testimony before this committee about what I would describe as a two-step political problem.

Most of these items that you have measured here are direct domestic results that people are concerned about. We have had a lot of testimony about the impact that the deficit has on the value of the dollar on international markets and, out of that, the threat that that deficit creates indirectly to our ability to compete long term.

Is there anything in your data which indicates that the public understands that linkage or is concerned to a significant degree with that indirect problem?

Mr. HARRIS. I have to say that we did not test that international aspect in this study but we have touched on it in other studies we have done and I have to say that the public generally is not well aware of the fact that it's the high dollar value abroad which indeed has allowed foreign competition to come in and sell at low prices, which in turn has kept American business from raising its own prices, and in the process as well as drawn into the U.S. capital investment from abroad to the tune of about 25 to 30 percent of all of our capital invested in this country in the past few years.

I say the public isn't really aware of it. The people who are aware of it is that small percent—I believe it's 7 percent—that have traveled abroad, who are well aware of the advantages of going abroad, and then you have a larger number who if their employment is impacted by the fact that they have products which are exported are awfully aware of that, and that's about 16 percent of the work force in the country. Those people are in distress because our inability to compete has been the high balance of trade deficit which keeps going higher and higher. It does worry those people because it's their jobs.

But I would say generally that people haven't been educated as to what the higher deficit in trade means, imbalance in trade means, and what the consequences of the dollar are.

There are some that argue that this is the best thing that ever happened. I dare say there's a few men in the Congress that predicted that inflation would be brought down through this means.

The uneasy thing is if you ever get the dollar dropping abroad and get a drain in capital here, we could have all the stage set for inflation beyond belief.

Representative OBEY. One other question before I turn the questions over to others on the committee. Again, let me be devil's advocate.

You indicate that the public is willing to share pain by experiencing tax increases or the loss of deductions which affect them.

For the purposes of argument, let me try to challenge that assumption to get your response.

What would you say if when I looked through the poll that I see, for instance, on tax increases that you indicate, that significant pluralities favor limiting deductions of charitable contributions or favor eliminating deductions of interest paid on second vacation homes. I see 49 to 40. If it slipped to 5 percent it could flip back the other way, pretty close to the margin of error in a normal poll. On some of the items you mentioned you say people are willing to accept taxes which probably don't affect them to a great degree. And if I try to estimate what we could raise by doing some of the things that the public approves—for instance, you say they approve of limiting charitable contributions deductions. That would raise, as has been described in your poll, about $980 million this year, which is a pretty small number.

They say they would limit interest deduction to $5,000. You could make a case that not many people are going to get hit by that, so it's easy to favor it, and it only raises $430 million.

So do you think that your data in fact demonstrate that people are willing to accept tax increases that they have to pay rather than some other fellow, and are they willing to support any tax items which really raise some dollars as opposed to small change?

Mr. HARRIS. Well, Mr. Chairman, that's a judgment call. I have been polling on the subject of taxes for a long time and I must say the way to ask about it is not really do you favor or oppose having your taxes increase; it's how willing would you be in order to accomplish some end to see your taxes increase, or what would you least object to out of a series of tax alternatives.

Therefore, the criteria, if you will, for judging whether the public will accept a tax increase I think is quite different.

I will admit and say publicly—I don't think I ever have before—that I was probably the culprit in all these Social Security increases that took place I think in the 1970's. I remember a poll we did that showed by 43 to 43 percent—a dead heat—people were willing to see Social Security taxes increased in order to make the system more solvent. Two members who are no longer here, the then chairman of the Ways and Means Committee Ullman, and his chief counterpart Barber Conable—did see those taxes—and I remember vividly a private meeting I had with them where they asked about the results. They said, "Good heavens, we've got a mandate for this. It's a dead heat, 43 to 43." And I sort of exclaimed and said, "But that's no margin at all." They said, "The big question is how much opposition do you get to taxes if you don't

have more than 43 percent we think we're home free," and literally it went through. I'm not saying it went through because of the poll, but I think the standards are quite different.

What strikes me in this study is that one of them is a simple question but I think it's significant—"In general, in order to cut the Federal deficit, would you be willing to see or not your own Federal taxes go up some if everyone else had to bear an equal share of tax increases?" Seventy-three to twenty percent said they were willing.

Now the key to that, in my judgment, is twofold. One is that it's amazing—it's very hard to get people to say they would be willing to see their taxes go up under any conditions, but I have no illusions. The key to it is if everyone else had to bear an equal share of tax increases. I think people feel that inequity is the name of the game. People feel that if you're rich or big business or privileged, you can hire all the best accountants and tax lawyers and get out of it, but "if I have deducts," as they call it, "and my taxes are taken out of my paycheck every week or every month or how often I'm paid, then I don't have that option." And people are fighting mad about it, and yet they are also deeply concerned about the deficit.

I'll put it this way. I have rarely seen an issue which cries out for leadership, to put it bluntly, Mr. Chairman. The people are not going to rise up in this country and say,"Please tax me." What they will say is, "When the leaders have the guts to stand up and say as a last desperate measure we'd better raise taxes as well as cut the Federal spending to the bone," you're going to get more people saying, "Amen. Thank goodness we have leaders like that."

Representative OBEY. I guess the only response I would have to that is that we had a poll of sorts in November and I think a lot of people would say that there was a candidate who did stand up and suggest that and he didn't seem to be universally accepted by the country.

Mr. HARRIS. Mr. Chairman, you're absolutely right. I would only make a comment on that, having documented that during the election. I think the Democratic candidate made a horrendous mistake by the way he handled that whole tax issue. He came out and said that he would raise taxes and he said his opponent would also have to, but then it took him—and you can check this out—it took him 22 days after he made that statement to finally come out with a statement saying, "And what is more, I will agree to earmark those tax increases to the reduction of the deficit."

In those 3 weeks the whole ballgame was lost because of the thing the President did—and the people are convinced of it——

Representative OBEY. Are you implying that the public would not be willing to raise taxes to pay for additional spending but they would be willing to raise taxes to reduce the deficit?

Mr. HARRIS. Yes. What people became convinced of is that Mr. Mondale was going to raise taxes and then proceed to spend all the receipts and he never convinced the public or the electorate that he would dedicate those tax increases to reducing the deficit. I would say that was a fatal mistake he made.

When 3 weeks later he said it, he said it in a way that people never heard it, and I would say that barn door was locked.

Representative OBEY. Congressman Lungren.

Representative LUNGREN. Thank you, Mr. Chairman.

Mr. Harris, being a member of a party that for 50 years ran on reducing deficits and managed to get the "bejabbers" beaten out of us each and every year, it's probably going to be difficult to convince members of our party, as well as the other party, that people are as concerned about it as you say they are. Although I think they are.

Can you give us the dimensions, if you will, of the change that you see in the attitude of the public on that issue?

Mr. HARRIS. Yes. I would say that I remember vividly in the early 1970's we had a tax revolt. We're doing some polls on that subject. There was a lady, Miss Vivian Kellums, in Connecticut who refused to pay her taxes and led a drive in the country telling people don't file your taxes, go to jail if you have to; they are unfair and it's not right. And the mark of that period was one of just outright—we got majorities who said they were unhappy with taxes, but the solution that they came to then was to cut taxes.

Now we get a very different answer, and this is as of I would say 2 or 3 years ago. People got much more sophisticated. They now say the system is grossly unfair. They even say that they don't think—this is what I call just ingrained in the American psyche, which is tax according to your ability to pay, the graduated income tax—disillusionment has set in. The number in 1 year dropped from 63 to 49 percent who believed in the graduated income tax.

When we asked why, they said because the people who are supposed to be paying according to their ability to pay don't; they get out of it. We middle income people get stuck with it.

What you've got here is the great middle income populace issue, in my judgment. It's perceived tax inequity. So they say, "Reform taxes and the system," but at the same time they are deeply worried—even more worried about the deficit—so they are willing to see quite separately taxes raised. They do not see tax reform and the raising of taxes as being compatible with each other in the sense they should be part of the same thing.

Representative LUNGREN. Let me ask you one question. In a memo we received from our staff after they looked at the first draft of your study, there was a conclusion in there from the study that said the public may be ready to cut the deficit but not through tax increases, either on individuals or businesses alone, although they will accept some tax plans if need be. I don't think I find that conclusion in here now.

Mr. HARRIS. I think you will find it in the report. I think what we're saying is that nobody ever wants to see their taxes raised if they can help it and they come by it in a very reluctant form, but they will take it if it means reduction in Federal deficit. They will take it as a last desperate step.

And the way we posed the question here was to say, "Suppose you are a Member of Congress and you had to vote on a proposal to cut the deficit in half," and then we went further and said, "All right. Suppose that wasn't enough. What would you then be willing to do?" All that says is that we're saying to people, "Suppose it got down to that last desperate hour where you really had to cut into

the muscle, cut the bone, would you be willing to do it?" And I'd say in a qualified way that the public is saying, "Yes."

Representative LUNGREN. Well, that's what I'm trying to understand.

Mr. HARRIS. Perhaps more than you hear "Yes" out of Washington these days.

Representative LUNGREN. On page 10 of your study, it says, "By 82 to 9 percent, they prefer decreasing spending to raising taxes as the way to do the job." But when confronted with the reality of the choices, only 29 percent said the deficit could be reduced by spending cuts alone.

Mr. HARRIS. Right; 60 percent said it has to be both.

Representative LUNGREN. I'm trying to figure out what the reality of the choices is that you presented to them that made them decide that they wanted a combination.

Mr. HARRIS. We said, "During the upcoming session of Congress, in order to cut the Federal deficit that's estimated to be about $210 billion next year, do you think it's possible to reduce the Federal deficit enough by spending cuts alone or only by raising taxes or do you think it will be necessary to both cut Federal spending and raise taxes?"

Results: spending cuts alone, 29 percent; only by raising taxes, 3 percent; both cut spending and raise taxes, 60 percent. That's about as clear cut as you can get.

Representative LUNGREN. I understand that, but I just don't know what the reality of the choices are.

Mr. HARRIS. You don't think that's a fair question?

Representative LUNGREN. No, no. What I'm just saying is there seems to be a movement in the presentation that suggested that it was absolutely necessary by the reality of the situation to accompany spending cuts with tax increases. I don't think that's been proven here on this side or on the Senate side. I would hate to get us in a position where we would feel that, absent raising taxes which many people think is not going to happen, we can't do a real job on trying to reorder our priorities on spending.

So all I was saying is I don't know what the reality of those choices are.

Mr. HARRIS. I guess what we did was to take them that extra mile. We said, "Suppose that the spending cuts don't fully do the job. Would you then endure tax increases and do you think that's going to happen that you will have to cut spending as well as raise taxes," and there overwhelmingly, 60 to 32 percent, just about 2-to-1, they say the reality is that we are going to have to do both.

Representative LUNGREN. OK. I understand that that is there. I still don't think that contradicts the L.A. Times poll that came out in January which when asked in a national sampling, "In order to reduce the deficit do you think we should trim government expenses still more; do you think it's time to look for ways to raise?" By 78 to 16, they said, "Trim more rather than raise taxes."

Maybe what you're saying is that they don't believe that Congress has the political will to make the cuts that are necessary and therefore taxes going to have to be increased.

Mr. HARRIS. Would you give me a chance to comment on the question asked by the L.A. Times?

Representative LUNGREN. Sure.

Mr. HARRIS. I think what they did was a classic case of giving the respondents a perfect loophole. They said, "Do you think it's time to turn to taxes or should we see if there are more cuts?" That's like saying, "You can really get out of taxes if you do cut enough," you see.

The way we put it was, "Do you think it's possible"—we asked it straight up—"Do you think it's possible to reduce the Federal deficit enough by spending cuts alone or by only raising taxes, or do you think it will be necessary to both cut Federal spending and raise Federal taxes?" I stand by that as an eminently fair question.

Representative LUNGREN. Well, I'm not saying it's unfair. I'm just saying the interpretation of the L.A. Times poll is that some people say that we've cut so much from the Federal budget that there's hardly anything left but worthwhile programs. Other people say that there's still a lot of fat that can be eliminated. In order to reduce the deficit do you think we should trim government expenses still more or do you think it's time to look for ways and raise taxes?

Let me just ask another question that kind of intrigues me. That is, there does appear to be a clear-cut majority for eliminating COLA's for Federal retirees, both military and civilians. Yet when you get the question, "Should we not have a COLA increase for a single year for Social Security recipients," we don't have that majority.

Mr. HARRIS. That's right.

Representative LUNGREN. I just wondered, can you give us an indication of how people treat Federal retirees differently than Social Security recipients on the same question?

Mr. HARRIS. They do indeed. It's a classic case I think and a real issue in this country. The most graphic way—and we've tested this I suppose 15 or 20 times and you get this difference. Why? I must say I might get struck by lightening as I say this because I'm sitting here in Washington, DC, because there is huge vulnerability of Federal and military retirees in terms of public opinion in this country. Every time you test it, people say they are willing to see changes made and even cuts in their retirement benefits. They are willing to see certainly a freeze in COLA adjustments for a year, or they do beyond it, and I can give you some evidence on that; and after the fourth or fifth time we tested this I looked into it more and then found out—and let me say, Social Security partly—after all, you have a President in the White House who's made a pledge that he would never cut anybody's Social Security benefits who's now on Social Security, and I can tell you—it's not in this poll but we did it in March I guess—we asked, "If Social Security adjustments are frozen do you think the President has gone back on his pledge?" And by 74 to 24 percent, the majority of the public would think he had gone back on his pledge to the elderly.

But I'll tell you the key, Congressman Lungren. You have Federal employees not on Social Security, as you know, and what's happening is that people on Social Security get desperately worried that their Social Security is going to be cut. They walk into the Social Security office somewhere and the person standing there who's answering their questions, or sitting there, is not on Social

Security. The public thinks they have got a better system, that somehow Federal employees opted out of Social Security. And what people on Social Security are anticipating, especially the 60- to 64-year olds who say in the next few years I'm going to be on it—what they say is, "Good heavens, if the people who are running Social Security aren't even on Social Security, what message does that tell me?" A double-headed message. They say, "They've got a better system than I've got. How come they're living off my taxes?" And second, "Can I bet that Social Security is going to stay or is somebody going to take it away from me?"

Representative LUNGREN. I premise my question on a statement that you made here and I'm confused a little about what's in the study. Maybe you can clear it up for me.

In your prepared statement you say that there are six other areas you tested where a majority of the American people are not in favor of making cuts or raising taxes, and in that you include disallowing the cost-of-living adjustment for Social Security for 1 year. That's why I asked the question.

But on page 14 of the study it says, "By a startling 53 to 41 percent, the public favors disallowing the cost-of-living adjustment for Social Security for 1 year." I'm confused. I didn't mean to go into that confusion but I just noticed that was there. It's on the fourth indented paragraph on page 14 of the study.

Mr. HARRIS. When we put their feet to the fire on spending cuts and said, "Suppose you just couldn't get it any other way"—in other words, "Do you favor or oppose it" and say, "Would you do this," indeed you do get 51 percent.

When you put it in more cosmic or generalized I suppose all-encompassing context of either spending cuts or tax increases or simplification, what we call real world, then the majority disappeared.

Representative LUNGREN. So if they're really confronted with it they say they would be willing to accept it?

Mr. HARRIS. Yes, as a last resort, if there were no other way to get the deficit under control, people might be willing to do this as a 1-year proposition, a cut in Social Security. That's in the data.

Representative OBEY. To clarify that, you indicated that the public by what margin thought the President would be going back on his word if he accepted a Social Security cut?

Mr. HARRIS. 74 to 24 percent. People have a way of holding politicians, as you know, to their word on these things.

Representative OBEY. Congressman Wylie.

Representative WYLIE. Thank you, Mr. Chairman.

I want to welcome Mr. Harris. I think that he performs a very valuable service in trying to determine public opinion on some very important issues facing the Nation and facing us as members of Congress.

I think that finding out where people stand on these issues is very, very important in our democracy and, as a matter of fact, I put out a periodic questionnaire to my constituents too, and I did one just before the election and on my questionnaire which came back the budget deficit was said to be the most serious problem facing the Nation today. It wasn't the third. It was the first. So I talked about that during the campaign, but I think you have some

very interesting results here which we need to examine in some detail.

Have you asked the questions about a pending freeze across the board? I put that on one of mine and I didn't hear that mentioned here a little earlier. The theory there being that everybody will share the suffering. They think that we need to reduce the budget deficit but when it comes to specific programs, people affected by those specific programs don't want those programs cut. They want somebody else's program cut but not theirs. So that makes it difficult to sort out.

Mr. HARRIS. Congressman Wylie, on the Sentry survey we didn't get a full survey and we left some things out, but back at the end of January in our regular Harris survey we did ask this and we asked about—in fact, we said, "One of the approaches to cutting Federal deficit by Republicans in Congress is to freeze all spending by the Federal Government for 1 year. In other words, whatever was spent on a Government program last year be spent this year. Do you favor or oppose such a freeze in Federal spending?" 67 to 29 percent favor that.

We then said, "President Reagan's budget that he is submitting to Congress would also call for a freeze in spending but of a different type. The President would keep overall spending on grants to elementary and high schools at last year's level but he would increase spending for some programs and decrease spending for others. For example, he would increase defense spending by 6 percent and cut a similar amount out of domestic programs, such as health benefits for veterans, farm subsidies and revenue sharing for States. Would you favor or oppose this kind of freeze in Federal spending?" 71 to 25 percent oppose it.

Representative WYLIE. Oppose it?

Mr. HARRIS. Yes, sir. What they are saying is, if you've going to freeze by holding everything the way it was last year, good idea. But if you're going to start going selective on me and say certain things go up and certain things go down and in the end we will try and keep it even, they don't buy that.

Representative WYLIE. That's a reflection of my mail, I might say, from my constituents.

Mr. HARRIS. They say this?

Representative WYLIE. As a matter of fact, yesterday we had an amendment on the floor for a freeze of NASA spending at the fiscal 1985 level. NASA is a very popular program and it's been one of those where we have supported spending every year or an increase in spending, but when an amendment was offered yesterday there were less than 20 votes against it.

Mr. HARRIS. I saw that.

Representative WYLIE. So even this very popular program they were saying—I think Members of Congress were saying our constituents would be willing to freeze spending across the board. That's where mine are coming out.

Now you talk about the possibility of increasing revenues and I think it's a matter of phrasing the question. Rather than an increase in taxes, if you would use the words "revenue enhancement," which is what the President would like to have us use, it might even be more popular. But I think it's a matter of where you tax.

An increase in the tax on cigarettes is a very popular one. I put that on as one of the options. The cigarette tax of 18 cents a pack is going off on October 1 which generates about $2.5 billion. A tax on alcoholic beverages would be very popular. But when you talk about increasing the rate which taxpayers pay, they say, "No thanks, even to reduce the deficit."

How does that square with your results?

Mr. HARRIS. If you ask about a 10-percent increase in surcharge on Federal income tax, you get overwhelming opposition to that. People would rather do it by using certain deductions, for example. What amazes me is they are willing to see a great deal of what they spend on credit cards, charge accounts and so one, on interest payments, except mortgages—those are sacred, believe me.

Representative WYLIE. Even on second homes?

Mr. HARRIS. Mortgages on your first house, not the second.

Representative WYLIE. What about the second?

Mr. HARRIS. The second one they are willing to buy, despite the real cries of anguish that have gone up from people.

Representative WYLIE. The National Realtors and Homebuilders say that the public wouldn't buy that.

Mr. HARRIS. We have evidence in the Sentry study that shows people are willing to do that. But what it is, they are willing to say, "We'll give up certain tax advantages if that means bringing in the revenues to balance the budget."

There are others, too. One of them is, for example, some kind of energy tax. During a period that you've got the energy crisis certainly at worst leveled out and perhaps going down, people are willing to see tax on imports from oil abroad. They are willing to see other kinds of energy taxes. These, as you know, come to quite a lot of money. I understand from Mr. Baker, who's an authority on this, it's $51 billion to be raised by a 10-percent tax on oil imports, for example.

Representative WYLIE. That's a lot of money.

Mr. HARRIS. Congress would dearly love to get $50 billion.

Representative WYLIE. President Ford wanted to do that but he didn't get very far in that.

Mr. HARRIS. It's a different time now.

Representative WYLIE. The timing wasn't right.

Mr. HARRIS. In a time of falling energy prices, then is the time to increase energy taxes.

Representative WYLIE. That probably does add another dimension to it.

One of the places where I'm getting unloaded on in the tax simplification proposals is on charitable deductions. I think everybody that ever looked at a church has written to me saying that we can't handle something that wouldn't allow or would cap charitable contributions—the United Fund people and all these things.

Do you have any way of knowing whether there would be any reduction in the manner of giving or the amount of giving if we capped the amount of charitable contributions deducted?

Mr. HARRIS. No, we haven't done that study. I'd like to do it. I think it ought to be done. I did say in my testimony, Congressman Wylie, that I suspect the public opinion can be changed. We find both on tax simplification and the way to decrease the deficit

people are willing to see some restriction on charitable giving up to a certain amount, not specified. But when you ask about in effect abridging that deduction, 71 percent stand firm; and I suspect before we're through that that's one the public opinion will change on. That's a guess, though.

Representative WYLIE. You say that you think capping charitable contributions will be OK?

Mr. HARRIS. I think very deeply—not as much as the mortgage on their homes—but charitable giving is very deeply ingrained in our society. I think as you begin to get into the churches and all kinds of eleemosynary organizations they're going to say, "Hey, you're really going to hurt us here." I think you'll get a public response to change that, much as when you ask people about inequities in student loans and grants, people will say there are some students that rip it off, but you then ask directly about this $32,500 cap that the administration has asked for and I can tell you that all hell breaks loose on that; when you get over 70 percent that say don't do it.

So there are certain sacred cows and I would say that probably charitable contributions would be among them.

Representative WYLIE. Even at a time when the President is—well, the President is promoting volunteerism now and suggested that the Federal Government ought to get out of a lot of areas and one of them is in this manner, through the use of charitable contributions, I suppose there is a dimension there.

Mr. HARRIS. I think it will sound like a contradiction to a lot of people, too. How do you expect to increase private contributions when you're going to make it harder for us to take it off our taxes?

Representative WYLIE. Thank you very much.

Representative OBEY. Congressman Scheuer.

Representative SCHEUER. No questions, Mr. Chairman. I very much appreciate the testimony and I have enjoyed it very much.

Representative OBEY. Mr. Harris, two other questions on military spending. The problem in dealing with that issue is around here virtually every other alternative presented to us these days involves a freeze for military spending that isn't a freeze. The discussion centers around whether we ought to have real growth of 1, 2, or 3 percent or whether we ought to have a freeze after inflation is factored in.

But when you ask questions of the public, where do they come down on that? Are they in favor of an increase in military spending at all in nominal terms? Are they looking at it in real terms after inflation?

When we see these numbers about what the public expects, what terms are they thinking of when they respond to your questionnaire?

Mr. HARRIS. Mr. Chairman, there's been about as dramatic a shift in this. I did cite the fact that the standard question we've asked for about 20 years, "Would you favor an increase in defense spending, a decrease, or would you like to keep it at about the same level as it is now?" that went up from 10 percent at the end of the Vietnam war to 71 percent in 1980 during that election that didn't want to increase defense spending.

Representative OBEY. What I'm trying to get at is when you say 71 percent say they would like to keep it at the level it's at now——

Mr. HARRIS. You don't get that. That's the point. Now, for the first time—let me bobtail the answer to get directly to what you're asking about. We found back in 1981 by 67 to 26 percent a majority of the American people rejected the notion of cutting defense spending. Go out and ask exactly the same question today and by 54 to 41 percent a majority say they favor cutting defense spending.

Representative OBEY. What I'm trying to get is what do they mean by cutting?

Mr. HARRIS. They mean cutting the absolute amount and freezing defense spending—that is, keeping it at current levels—rises up to about 70 percent. That is a very popular idea.

What's happened is that about a year and a half or two years ago people meant cut the level of the request that the Secretary of Defense and the President had made, which as you know, are varying levels 17, 13, 7, you name it, but people were saying in effect—and it was very popular on the Hill, as you know, then let's only have 3 percent.

Now, for the first time, we are hearing very loud and clear, let's hold it to what it was or even cut it. Part of the reason—we've been out after the General Dynamics business, after these events that have taken place—people just think—over 80 percent think it's an enormous waste in the Pentagon. The idea of cost overruns has become something of high knowledge; 64 percent are aware of cost overruns, big defense contractors are ripping off the Pentagon, ripping off the taxpayers. They think it's an indigenous problem with most contractors and they think the missile systems that we come up with, a lot of them, don't work. That's the reason the MX is unpopular, even though it was authorized by this body. People don't understand spending a lot of money on something that doesn't seem to work and they think that's a waste of money.

So I would say categorically, while defense was a sacred cow back in 1980–81, it's now become highly vulnerable. People have about had it. It's not that they want to give up defense, not that they don't want a strong country, not that they trust the Russians—none of that. They just say it's a damned waste of money, please get the act together. It's out of control over there.

Representative OBEY. In my polling in my own district and the State, there's only one way that I can get people to say that they would support a freeze on the cost-of-living adjustments for Social Security, and that is if there is a freeze on military spending.

Mr. HARRIS. Right.

Representative OBEY. How do your numbers correspond to what I'm getting on my polls?

Mr. HARRIS. I'd say roughly we find much the same, Mr. Chairman. What we find—I have something right in front of me which comes out of data done just in January, but we've asked about this for a long time. I can give you one example of the changes.

Well, let me give you two. We asked this question: "President Reagan said he wants no cuts in the budget he's recommended for defense spending. Instead, he wants to make more cuts in domestic

social programs." We have been asking this since 1981. "If you had to choose between more cuts in this or cuts in the increase in the defense budget"—in fact, Social Security, to show you how powerful that is—back in 1981, cut defense first, 71 to 22; in 1984 it was 76 to 14, cut defense first.

But take one that's quite controversial like Federal aid to cities and a tradeoff against defense. Back in 1981, 38 to 41 cut aid to the cities first; today that's turned around, 44 to 38 cut defense first.

I can give you another one. Well, we've got one here which has been asked this year—Federal aid for loans to college students against defense, 59 to 33 to cut defense first. Defense loses.

Back in 1981, to brief all this up, out of, I believe, 11 that we asked about, defense won on 5 and lost on 6. Now you ask about the same 11 or roughly the same 11, defense loses on all 11. That says something. It says people are looking for some kind of fairness and equity on defense spending here vis-a-vis other spending.

Representative OBEY. Just one other question. One thing I'm buffaloed by is your indication that the public is opposed to the elimination of revenue sharing. Regardless of what the polls show, I ain't going to vote for revenue sharing.

Mr. HARRIS. You will or will not?

Representative OBEY. I will not because my view is simply that it is ludicrous for us to borrow $5 billion to send it to the communities. I mean, I think if we asked the public, "Do you want us to borrow $5 billion in order to send revenue sharing back to the communities," the answer would be "No," by one hell of a big margin.

Mr. HARRIS. I think you may be right.

Representative OBEY. My question is, why do they say that? Can you tell in your polling? Does it indicate that we have not made the point that that money is borrowed? Does it indicate that they are overwhelmingly concerned about their property tax rates? What's the reason for that?

Mr. HARRIS. I think you put your finger on the property tax rates. When you make a distinction, for example, we found that people are more willing—although in the aggregate you can't get a majority, but close to it—to see, for example, their exclusions on State and local taxes eliminated in order to get tax simplification—that is, state and local income tax—but when you add property taxes, that's the red flag waving.

Why? Because property taxes are close akin to mortgages and the home. The home is sacred. You can make a case—I think Secretary Simon, who was Treasury Secretary, made the case that the great tax loophole was people's ability to deduct the interest they pay on mortgages on their homes. I can guarantee you that's frozen and locked in stone. That's not going to be changed. But if you take property taxes out of that equation and people are willing to give on the State and local income taxes. By the same token, there is a sense that there's a divying up of money between the Federal Government and the States so that idea has gotten to be understood, and people generally are willing to abide revenue sharing except on two items—one, if you put a big price tag on it, contrary to some areas like Federal health programs, you put a high price tag on and people are still willing to see it go on, or student loans or a few things like that. If you put it on revenue sharing you do get a

block. The other one is you talk about block grants to the States. Whoever invented that phrase, Mr. Chairman, got the thing in deep trouble. You say to people, "Do you want to have $400 or $500 million go to your State at the discretion of the Governor or at the discretion of the State Government," people really get worried about that because they have a notion that some of that is going to stick in the pockets of the local politicians.

So they are very suspicious about revenue sharing but at the same time it was an idea that was heartily sold by first Republicans and then some Democrats embraced it as well, and it has its advocates there. So I really come out and say to you in our Sentry study we found you could not get a majority who wanted to cut that.

Representative OBEY. Congressman Lungren.

Representative LUNGREN. Thank God they don't think some of that money is going to stick in the pockets of Federal politicians.

I think I've found where we had our little disagreement on the question of disallowing cost-of-living adjustments in Social Security for a year and I want to ask a question based on that.

On page 16 of the study you have the simple question, "Now let's look at the spending side. To cut the size of the Federal budget deficit, would you favor or oppose"—and you read each item—"Disallowing the cost-of-living adjustment for Federal and military retirees for 1 year, but increasing it by how much inflation goes up after that," 53 percent are in favor of that and 41 percent are opposed.

Then when you go over to question 1 on page 22 of the study, "If you were a Member of Congress and had to vote on a proposal to reduce the annual budget deficit by more than half, would you vote in favor of a proposal to"—and then I guess it's on page 24 of the study—"Disallow the cost-of-living adjustment on Social Security for 1 year," only 39 percent vote in favor of it and 57 against the initial position. When you find push comes to shove and tell them they've got to do something more, it's favored 51 to 44.

The reason that I point that out is the difference in attitude between the way those two questions were asked doesn't seem to make much of a difference. For instance, in disallowing cost-of-living adjustment for Federal and military retirees it remained somewhat constant at 60 to 33 in that simple question and then if you're a Member of Congress it's 56 to 40.

On reducing growth of defense spending, when you ask it just simply——

Mr. HARRIS. Congressman Lungren, may I suggest you go to page 24 of the study and you look at the final position. That's the full sample, 1,253 as opposed to this final position under the qualified basis 1,092, you see it's 44 to 37 percent who voted in favor of disallowing the cost-of-living adjustment. It's below that 2 percent mark. That's the number you should be looking at.

Representative LUNGREN. OK. Well, the point I'm making——

Mr. HARRIS. Where we made the distinction is where you get an absolute majority like disallowing cost-of-living adjustments for Federal and military retirees. There's no doubt about that.

Representative LUNGREN. That's the point I'm trying to make. I understand that. The question I was going to ask you is, is there

any reason that you can give us as to why on a simple question, to cut the size of the Federal budget deficit would you favor or oppose freezing the cost-of-living adjustments for Social Security recipients, and that is supported 53 to 41; then you tell them that you're a Member of Congress and what would you do, and then it's 44 to 37; whereas in other questions you ask them that and there doesn't seem to be the great variance. It's just part of it. When they assume they're Members of Congress, they wouldn't have the guts to do that?

Mr. HARRIS. No.

Representative LUNGREN. Maybe that's self-evident.

Mr. HARRIS. No; I'd say what it is is when we put them in the role of being Members of Congress we told them that we're going to ask them about a whole combination of 12 different items, some of which were cuts in spending, some of which were tax increases. So you got, let's say, more balance and I use that word advisedly, answer. In other words, they had different options to choose from then, as opposed to straight up or down, in effect, if it were the way to cut spending and you had to face it, would you disallow the cost-of-living adjustment for Social Security recipients and there you got the 12 point margin, 53 to 41, in favor of it.

What that says to me is that if you got desperate enough they would be willing to do it. I would point out that among the elderly themselves 65 or over, 61 percent for whom Social Security is the main source of income, it's only a 1 point margin. And I suspect politically you can read your own message in that.

Representative OBEY. Would the gentleman yield for an observation?

Representative LUNGREN. Sure.

Representative OBEY. In a lot of this what my colleagues would say to me is, well, that's all fine and dandy, but when the television ad is run against you on a 30-second spot the ad doesn't say, "Do you know that your Congressman voted to cut *x* after he initially didn't want to do it, and did it in the context of reducing the deficit?" The ad says, "do you know that that crazy blankety-blank-blank voted to take away your *x, y,* or *z,*" and more often than not people forget how they answered on the initial poll anyway and they were just mad at it at the time.

Representative LUNGREN. Would the chairman yield back? You must have been talking to Republicans who were talking about those Democratic ads in 1982 on Social Security. We've learned our lesson. It's going to be bipartisan if anything is done.

Representative OBEY. I was thinking of some others on taxes.

Mr. HARRIS. I might say that we've never gotten—and we've carefully checked this out—any real static from the public after that bipartisan commission on Social Security.

Representative LUNGREN. OK. But you will recall that didn't happen until after the election. We got all the static in 1982 for coming up with the proposals. They were enacted bipartisanly after we lost the election.

Mr. HARRIS. You lost the popular vote by 12.7 percent that year.

Representative LUNGREN. I understand that the Social Security was a big one.

Representative OBEY. Congressman Scheuer.

Representative SCHEUER. We also had the benefit in that settlement of hiding behind our beloved Claude Pepper. He gave a lot of Members cover when he voted for that settlement, cover for both parties, I might say, because that was not a partisan thing. You took a lot of heat if you voted to cut their COLA and Pepper sort of gave us the Good Housekeeping seal of approval and that was very helpful.

Mr. HARRIS. Sir, may I say to you, we tested something else which would be a 3-percent maximum cap on rises in COLA's in Social Security and there's a goodly majority of the people who would go for that.

Representative OBEY. Did you say nearly a majority?

Mr. HARRIS. A goodly majority. I believe, Mr. Chairman, 62 percent said they would favor that, including a majority of the elderly, because what it says is, if inflation gets out of hand I ought to get some relief but I'm willing to accept on a permanent basis a smaller amount. So that kind of compromise is one that I would rely on.

Representative SCHEUER. Getting back to the MX for one moment, have you done any recent polling on how people feel about the MX specifically apart from their general feeling that the military is sort of a loose cannon on the deck and is out of control?

Mr. HARRIS. By 61 to 33 percent, people oppose the MX. They think it's a system that just doesn't work. That's the problem. On the other hand, you ask people about giving the President what he wants to negotiate and you get a majority who are about willing to give him anything. But the MX sticks in their throat.

Representative SCHEUER. Does star wars stick in their throat?

Mr. HARRIS. People worry about star wars, contrary to the impression down here. They worry about it. They worry about it not because they call it star wars. What they worry about is, believe it or not, is that the system of deterrents could—if you do away with that, you can cause great instability and risks of somebody starting a nuclear war gets greater. It's very interesting. That hasn't been addressed. It's not that people are so dedicated to the concept of deterrence, but they are well aware that this has gone on for a long time and if you upset that balance and you're fooling around with something that's in the high unknown and could be very dicey.

Representative SCHEUER. Charitable contributions—I'm amazed. I got the logic of the fact that by 2 to 1, a little more, they accept the idea that capital gains would be taxed as ordinary income. I suppose that capital gains taxes has little significance to more than 25 percent of the population. The same thing with the investment tax credit. The same thing with depreciation.

Mr. HARRIS. That's a cap of 35 percent on the income tax, not the current 50 percent. In other words, they would be willing to do away with capital gains if the maximum tax paid was 30 to 35 percent. Bradley-Gephardt is 30 and Treasury is 35.

Representative SCHEUER. So, in effect, they are getting a tax break for capital gains under a flat tax system not much more than what they are paying now, a little bit more but not much more.

Mr. HARRIS. A little more.

Representative SCHEUER. The charitable contributions, a guy making $30,000 a year, the Treasury proposal would be that he wouldn't get any deductions at all until he gave away 2 percent of his adjusted gross income. That means the first $600 that he gave away would be out of his own pocket. Now the average guy making $20,000 to $30,000 a year or $40,000 a year, you're talking about a guy that gives $500 to $1,000 a year to the Community Chest or to the Boy Scouts, to the Grange, to the League of Women Voters, to pretty much local charities, and he probably doesn't—according to the statistics, about a little over 60 percent of the people don't give away 2 percent of their adjusted gross income. Now those 60 percent, they give away $500 to $1,000, something in that neighborhood. Don't they want to get a tax deduction on that? Do they understand what they're saying?

Mr. HARRIS. When we asked about getting rid of the deduction, it's 73 to 25. This is back in November 1984 and in December they said keep it. In other words, when you put it, "Do you want to eliminate it"—this was in the context of tax simplification—they say "no." But on the other hand, the idea of having some limit—what the implication really is is if the limit didn't allow rich people to deduct too much, then it's all right.

The problem on charitable contributions comes down I suppose to the contributions to the church syndrome where if people want to cheat they can just do it because they can just say they gave three times the amount they actually gave and in effect—in other words they find that they can give and also get away with it. It's one I think that the charitable organizations just haven't—they can make their case, but I suspect they are going to make it very strongly. In fact, you have probably heard a great deal from some of those people.

Representative SCHEUER. I think that the National Council of Churches, all three main religious groups, have come in very hard against the proposal.

Mr. HARRIS. Plus arts organizations and others.

Representative SCHEUER. Yes, of course. But to the average Joe who may not be a big giver in the arts but does give to the Boy Scouts and does give to his Community Chest, it seems to me that he would want to get a deduction on that first $500 to $1,000. It's a little more than 60 percent who don't give more than that.

Mr. HARRIS. We said up to a certain amount and didn't specify it. So the key is, up to what amount? That I think should be the next step to testing that.

Representative SCHEUER. You haven't done any test of the Treasury proposal which is 2 percent of adjusted gross income?

Mr. HARRIS. Not as such, no. We did not do that. The way to do it is not 2 percent. You would spell it out to some rough average. Suppose everything over—what does 2 percent come to?

Representative SCHEUER. Two percent of $50,000 would be $1,000. Two percent of $25,000 would be $500.

Mr. HARRIS. But it would come to about $500 or $600, something like that, and the way to ask it would be that way. "Would you be willing to see your deduction eliminated on things over $600?"

Representative SCHEUER. Well, the Treasury proposal is to eliminate the deduction on things under $600 and give you the deduction over. In other words, the first 2 percent of adjusted income.

Mr. HARRIS. You mean it's like a deductible?

Representative SCHEUER. That's exactly what it is.

Mr. HARRIS. OK. We haven't tested that.

Representative SCHEUER. The first 2 percent you do not get the deduction. Only when you hit that threshold do you get a deduction. You haven't tested that yet?

Mr. HARRIS. That's what I say. That opens the possibility for cheating because you can say you dropped it in the box in church and went over the amount so they don't have to pay the tax. That's an incentive to cheat.

Let me say, another study we did for Business Week we found 37 percent of people earning $50,000 or over admitted they cheat on their income taxes. That's startling. And 50 percent of Yuppies said they made out their own tax returns and the main reason is they can't get an accountant to sign their tax return. So that this is cynicism pretty high and big. So if you want to pass legislation that's going to encourage that cynicism, go right ahead.

Representative SCHEUER. 50 percent of the Yuppies?

Mr. HARRIS. The middle income people of the country are getting disillusioned with the whole system, not just the tax system.

Representative SCHEUER. Well, when you say 50 percent of the Yuppies don't want an accountant because they can't get him to sign, you are in a situation like France and Italy which you mentioned in your testimony, and I think that has to scare all of us. Thank you, Mr. Chairman.

Representative OBEY. Thank you, Congressman Scheuer.

Gentlemen, thank you both for your time today. We appreciate it. The committee stands adjourned.

[Whereupon, at 11:40 a.m., the committee adjourned, subject to the call of the Chair.]

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